A **Casey Research** Special Report

# Going Global


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## Everything You Need to Know to Internationalize Your Assets and Yourself

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Would you stake everything you have – your retirement nest egg, the kids' college fund, the second-honeymoon fund, the rainy-day money, all of it – on just one company?

Of course not. Even if the company were a trillion-dollar behemoth with a clean-as-a-whistle balance sheet, pouring *everything* into it would mean risking a catastrophic loss.

Yet that is precisely the kind of mistake Americans routinely make, including investors who think they're playing it safe by diversifying.

## Empty Diversification

Diversification. It's a prudent idea that almost everyone salutes but very few really put into practice.



A stock market investor thinks he's diversified because he's spread everything out among 20 good stocks – no more than 5% or so in any issue. But he's 100% in the stock market.

A "balance" investor thinks he's diversified because he's gone beyond the 20 stocks and added some bonds and Treasury bills. But he's 100% committed to conventional investments.

His neighbor thinks he's diversified because he didn't stop with stocks and bonds, he bought some shares in a fund that's dedicated to holding gold bullion. He took a step in the right direction, but he's still 100% committed to investments that depend on the smooth operation of the U.S. financial system.

Every one of them thinks he's being cautious and sensible. But they're all skating on thin ice.

## The Greatest Risk to You and Your Capital

If you are like most American investors, you live and work in the United States. Your business operates and sells only in the United States. You invest your money through a U.S. brokerage house, and you bank only in the U.S. You own property in the United States. When you travel abroad, it's with a U.S. passport. All your retirement savings are held in the U.S., in a U.S. government-authorized pension plan. You own some gold, but you store all of it in the U.S. You always keep a substantial reserve of cash, but all of it is in the U.S. dollar.

Seems pretty normal, right?

Now imagine that something goes wrong – the neighbor's kid falls into your pool, Congress runs out of money, an IRS agent makes you his pet project, the banks go under, recession-rocked politicians come up with a law that you can't obey without throwing away your financial security. Any number of things could happen, big or small, that would put your nest egg, your livelihood, and your family's welfare at risk, simply because you bet everything on a single country.

Regardless of what country you're from, be it the United States, Canada, or Zimbabwe, geographical diversification is absolutely critical. Consider some of the hazards you're exposed to unless you diversify beyond the U.S.

## Exposure

**Inflation risk.** Bonds and T-bills sound safe. But their value depends on the value of the dollar. When the wild money printing and deficit spending of the last two years turns into price inflation, the purchasing power of dollar-denominated bonds and T-bills will get whacked.

And that's just the inflation that's already baked in the cake. If the economy doesn't come roaring into recovery soon, there's likely to be another round of money printing, which means the eventual inflation will be even worse. Even more incendiary are the deficits. The government now forecasts deficits of $10 trillion over the next ten years – and that's only the shortfall it is acknowledging.

The resulting inflation won't just hurt bonds and T-bills. Inflation is poison for the stock market. It disrupts the economy, spreads uncertainty, and sticks most corporations with bigger tax bills, even though their real profits are declining. The 1970s – rising inflation and a faltering stock market – are the starkest example of how ugly it can get.

When inflation returns, Mr. Balanced Portfolio, with everything in stocks, bonds, and T-bills, is going to hope that someone in the neighborhood buys a large refrigerator, so that he can move into the shipping box.

**Currency risk.** The U.S. dollar is still the world's reserve currency, which should be a great advantage for us. It used to be, but not any longer. Now it's a threat.

The government's big deficits have been financed largely by foreign investors, who are now glutted with Treasury bonds and other IOUs denominated in dollars. They're not blind to what's going on in the U.S. They see the oversized deficits and follow the reports of a ballooning money supply.

If they start selling their dollar investments – or just stop adding to them – the dollar will crater in foreign exchange markets. Prices of everything the U.S. imports, from crude oil to finished goods at Walmart, could double in a few months' time. That would have an eye-popping effect on your own cost of living, but even greater damage likely would come from the next two areas.

**Economic turmoil.** Markets can adjust to anything, even a collapse of the dollar on foreign exchange markets. But big adjustments take time, and they're painful. When disgusted foreign investors give up on the dollar as a reserve currency, they will disrupt every business in America. The result could be an inflationary depression – rising prices for most things you use, coupled with widespread bankruptcies and 1930s unemployment levels.

**Capital controls.** In the long run, they cause terrible damage. But what desperate governments have turned to repeatedly, as a device to slow their currency's decline, is controls on international flows of capital. The restrictions have taken many forms.

- There may be special taxes or licensing requirements for anyone who wants to buy an investment or anything else outside the country.
- You may need to request a permit or an allocation to buy foreign currencies.
- There may be an "interest equalization tax," such as the measure the U.S. imposed in the 1960s.
- You could be compelled to exchange foreign currency you hold at a fixed rate, set by the government, that is well below market.
- You could be prohibited from owning a bank account denominated in another currency, or maintaining any account in a foreign bank.

Or it may simply become illegal for private individuals to buy foreign currencies. That would make foreign travel a practical impossibility.

**Gold confiscation.** You know your government's desperate when it announces an "official price" for gold and forces everyone, under threat of criminal penalties, to sell. This is exactly what happened to Americans in 1933.

These hazards aren't hypothetical. They're not science fiction for financial planners. They are real. And they have happened before. Within living memory, more than one of them have occurred in most developed countries, including the U.S.

Why would any government consider such drastic measures?

Simple. To politicians trying to hold on to their positions, such steps can look like easy, quick fixes to the kind of economic trouble the U.S. is in today. Capital controls, for example, could keep a lid on domestic prices – for a while. And while the lid stays on, the politicians can print as much money as they like and spend it to "stimulate the economy."

Currency controls, deficit spending, printing more money – they're all ways for the political class to buy time.

## Full Diversification

Real protection from these dangers won't come from adding another stock to your portfolio or from anything else you might do through your usual broker. In fact, real protection won't come from anything you do that doesn't in some way reach outside the United States. If you want real protection, at least part of your financial life, and perhaps part of your personal life, needs to leave home. The only way to achieve the safety that comes with real diversification is to diversify internationally.

This report shows you how to do it - all within the rules.

- **Step 1.** Thorough international diversification begins with acquiring the kind of assets that will hold value or even appreciate if conditions in the U.S. deteriorate.
- **Step 2.** Move at least part of your assets offshore, starting with a foreign bank account.
- **Step 3.** Introduce one or more legal structures (a company or a trust) to hold and protect your foreign assets.
- **Step 4.** Ship your retirement plan overseas.
- **Step 5.** Develop a solid stake outside your native country, through investment in real estate or even a second citizenship and passport.

Plant multiple flags in multiple foreign countries and you can stop worrying about what happens to you and your family if conditions at home – politically, socially, and economically – deteriorate toward the intolerable.

You'll be one of the lucky ones.

You'll have someplace to go.

Why is that a goal? Because should Washington usher in the ultimate disaster, you want a few things working in your favor, including:

- **Freedom of movement.** If our social fabric comes apart, you want to be able to get around. And get away.
- **More than one place to call home.** Yes, you love your neighborhood now. Will you still love it when it starts filling up with people who have nothing left to lose?
- **Asset protection.** Neither of the above will mean much if you're not diversified, the Dow drops to 600, and the bucks in your wallet are about as valuable, and as useful, as a Zimbabwean $1,000,000,000,000 bill.

Merely looking with a clear eye on the direction the U.S. is taking leaves many Americans feeling boxed in, helpless, with no way out. Some give up and brace themselves for the worst. But you did something else – you reached for this report.

Good. Because we believe the situation is dire but far from hopeless. You'll find that reorienting yourself and moving in the direction of international diversification isn't nearly as complicated as you might have imagined. For many investors, the hardest part of the project is simply getting started, taking the first step.

There is much for you to do, and you can't get it all done overnight, of course. Just begin wherever you feel most comfortable. Take that first step and go from there.

If you could only do one thing to protect yourself from the hazards of being tied to the U.S. economic system, buying some physical gold would be our first recommendation.

Gold is independent of any government, and it is recognized and traded everywhere in the world. Because of its intrinsic fundamentals – it's rare, durable, easy to identify, divisible, and quite portable – it has been used for centuries as money and as a reliable, long-term store of value. And at a time when the public is slowly waking up to the unreliability of paper currencies, the financial demand for gold is growing, which should make the metal profitable to hold for at least the next few years.

Another plus: because it is not recognized as a "monetary instrument" by most governments, you can freely transport gold across borders and store it outside your home country.

There are good reasons not to keep all of your gold, or even most of it, at home.

First, among the simple steps you might take, owning gold is as close as you can get to stepping outside of the financial system. You can safely store gold in an overseas vault without any U.S. disclosure or reporting requirements.

Second, storing gold outside of your home country protects it against confiscation from a government that may outlaw the private ownership of precious metals once again.

Third, you'll want your gold stored where you can access it in the event of an emergency – such as social chaos, political instability, or a currency crisis. If such things transpire, you may want to be far, far away from your home country.

You'll want your physical wealth there waiting for you, already locked up in the safe. Waiting until disaster strikes and then trying to transport a few dozen (or hundred) ounces on your person is asking for trouble.

### What About Silver?

You may have noticed that we make frequent reference to gold without mentioning silver. We like silver as well as gold, but we emphasize gold in this Report because it's a way to transport substantial wealth with comparatively little weight.

One ton of silver is worth around $600,000, but it will cost you an arm, a leg, and a big headache to transport it securely. The same value in gold is only about 30 pounds… much easier to control and move internationally.



## Gold Media

Gold is available in different forms. Each of them has advantages and disadvantages. There really is no single best form to own.

**Gold bars.** The wholesale trade for gold is conducted primarily in 400-ounce bars, known as "London Good Delivery" bars, and also in 100-ounce bars and 1-kilogram bars. When you read about "the" price of gold, this is what the story is referring to.

There are also 10-ounce and 1-ounce mini-bars (sometimes called “wafers”) available for purchase. If you buy a mini-bar, make sure it carries the hallmark of a well-recognized fabricator, such as PAMP or Credit Suisse.

The advantage to buying gold bars is that the transaction costs (the bid-ask spread and, in some cases, commissions) are very low. In general, the larger the bar, the lower the costs, so mini-bars do have higher transaction costs.

The primary disadvantage to bars is that they are more difficult to recognize and in many cases need to be professionally assayed prior to sale.

**Bullion coins.** These are coins whose value derives almost entirely from the value of the bullion they contain, not from whose picture is on them or what century they’re from. As with a mini-bar, the price per ounce of a bullion coin will include a premium.

Table 1 shows the gold bullion coins most widely available around the world; there is no compelling reason to prefer one over the other, but you will pay a higher premium for Eagles and a lower premium for Krugerrands. Avoid commemoratives or “proof” sets.

Coins are easy to transport and widely recognized. Most skilled gold dealers in the world can spot a legitimate American Eagle without having to do any testing beyond picking it up.

### Table 1

| NAME | ISSUER | PURITY | GROSS WEIGHT (oz.) | FACE VALUE |
|---|---|---|---|---|
| Eagle | U.S. | 91.67% | 1.091 | US$50 |
| Buffalo | U.S. | 99.99% | 1 | US$50 |
| Maple Leaf | Canada | 99.99% | 1 | C$50 |
| Krugerrand | South Africa | 91.60% | 1.0909 | none |
| Philharmonic | Austria | 99.99% | 1 | €100 |
| Nugget | Australia | 99.99% | 1 | A$100 |
| Panda* | China | 99.99% | 1 | 500 Yuan |

*China issues a new design each year

**Gold pool.** Some gold dealers and foreign banks allow customers to buy a fraction (down to 1/1000 of an ounce) of a bar of gold. The gold for all the customers who do so is stored by the dealer as a single, undifferentiated pool. No particular bar is identified as belonging to any group of customers. Transaction costs are generally low.

If you buy pooled gold, you can later resell it to the dealer, or you can take delivery in the form of coins or gold bars. If you do elect to take delivery, the dealer will charge you a so-called “fabrication fee,” which ordinarily will be close to the premium (over the bullion price) for the medium you choose.

With pooled gold, you are relying on the dealer to store the metal securely and to keep a proper account of it. Unless you are careless in selecting an institution for pooled gold, the chance that your gold will go missing is remote. But the risk isn't zero, so we recommend that you not tie your fortune to any single pooled gold arrangement.

**Gold ETF.** An exchange-traded fund is akin to a mutual fund, but unlike a simple mutual fund, its shares are traded on a stock exchange. An ETF is designed so that the price of its shares closely and reliably tracks the price of the thing the ETF invests in.

A gold ETF holds standard-size gold bars and nothing else. The price of its shares goes up and down with the price of gold. You'll find details on three gold ETFs in Table 2. Transaction costs are very low, depending on the stockbroker you use, and for all practical purposes, you cannot convert your paper to bullion.

Gold ETFs are inexpensive to use, and they are wonderfully convenient for anyone with a brokerage account. But they are tied to the financial system, and their bullion holdings are in full view. In the event of a breakdown in the financial system, gold will be your most important investment – but you could face costly delays liquidating ETF shares. And if there is another gold confiscation, ETF shares will be an easy score for the government.

ETF shares make sense for a modest portion of your gold holdings, but no more than that. You may be sleeping better because you bought shares in a gold ETF, but if that's the only gold you have... wake up.

**Table 2**

| FUND | SYMBOL | CUSTODIAN | EXPENSE RATIO | OUNCES HELD | STORAGE LOCATION |
|---|---|---|---|---|---|
| SPDR Gold Trust | GLD | HSBC Bank | 0.40% | 38.2 million | London, England |
| iShares Comex Gold Trust | IAU | Bank of Nova Scotia | 0.25% | 4.35 million | Bank of Nova Scotia, Canada |
| ETFS Physical Swiss Gold Shares | SGOL | JPMorgan Chase Bank; Zurich custodian: UBS | 0.39% | 899,620 | UBS, Zurich, Switzerland |

**Gold-linked CDs.** These are certificates of deposit whose payout is linked to the change in the price of gold. Some large banks, such as Wells Fargo and JPMorgan, offer them, but because they're not actually gold backed, we suggest you avoid them.

## Gold Storage: Banks vs. Private Facilities

Because of the high degree of confidence most people have in banks and financial institutions, they equate secure storage with a bank safe deposit box.

Consider, however, that all banks are plugged into the global financial system… which means that, even in the most liberal, freedom-loving countries, banks are subject to significant government control and regulation. The key benefit of gold is its independence from the financial system. Using a bank safe deposit box compromises that benefit.

There are other options.

Home storage can be the most thoroughly private way to hold gold. No records, no third parties. But unless you are shrewd about concealing the coins, you risk theft. Worse, you risk being robbed by someone who is ready to kill you if necessary.

Private secure storage facilities are the free market's solution to the challenges of physical wealth preservation. They are not regulated by the government, not controlled by a 3- or 4-letter agency, and many actually offer anonymous enrollment. It doesn't get any more private than that.

## Gold Storage: Location

The first thing to consider is location.

The general answer is, "More than one."

Keep some of your gold in the U.S., close at hand. Gold is protection from chaos, so you need to be able to get to it in disorderly circumstances.

Keep the rest of it outside the U.S., ideally in countries that you visit frequently or where you wouldn't mind spending some time.

### Storage Locations

**United States**
Advantages: You're already there.

Disadvantages: You gain no sovereign diversification, and you risk having your gold seized if anyone (or any government agency) decides to come after you or again outlaws the private ownership of gold.

Private storage facilities: Sarasota Vault, Sarasota, FL (www.sarasotavault.com); 24-7 Private Vaults, Las Vegas, NV (www.24-7privatevaults.com); Diamond State Depository, New Castle, Delaware (www.diamondstatedepository.com); Mountain Vault, Phoenix, AZ (www.datamountaininc.com)

**Panama**
Advantages: Panama is easy to get to, within short flying time from Atlanta, Dallas, Houston, Miami, Los Angeles, Orlando, and New York City.

Disadvantages: Panama is a newcomer to gold storage, and the gold market (to buy and sell bullion) is underdeveloped, though growing rapidly.

Private storage facility: Best Safety Boxes, Panama City (www.bestsafetyboxes.com)

**Austria**
Advantages: Austria's reputation as a solid jurisdiction for gold storage is centuries old. You can buy and sell gold at just about any bank in Austria, and the country mints its own coin, the Philharmonic, which is quite popular and widely recognized, especially in Europe.

Disadvantages: Storage costs in Austria may be a bit higher than elsewhere.

Private storage facility: Das Safe, Vienna (www.dassafe.com)

**Switzerland**
Advantages: Like Austria, Switzerland has a time-tested tradition of storing gold, even through Europe's uglier times, like World War II.

Disadvantages: Also like Austria, storage costs in Switzerland will be higher, as will the cost of visiting the country.

Private storage facility: VIA MAT (www.viamat.com)

**Dubai**
Advantages: The Middle East has a tradition of valuing gold as money that dates back to ancient merchants in the gold souk. Most governments in the region are economically independent of the U.S. government.

Disadvantages: Dubai is experiencing some economic disorder with its debt load, although this should not affect the reliability of the storage facilities.

Private storage facilities: JFT Lockers (www.jftlockers.com);
Dubai Multi Commodities Center (www.dmcc.ae)

**Singapore**
Advantages: Singapore has one of the most stable, transparent, and least corrupt financial systems in the world, and you can buy gold at any bank in the city-state.

Disadvantages: Travelers may need to declare gold coin imports and pay a 5% sales tax on the coins; purchasing gold within Singapore also attracts a 5% tax.

Private storage facility: Cisco Certis (www.certissecurity.com/safedeposit)

## Transporting Gold

If you have a large amount of gold in the U.S. and want to move it overseas, it is not advisable to carry it personally. The security headache alone is reason enough not to try it.

Furthermore, even though it is technically legal to transport gold to most countries without declaring it, it is never a good idea to carry assets whose market value is more than the combined annual salaries of the entire customs team you will be introduced to.

If you do decide to self-transport, make sure you check the customs regulations in your departure country, your destination country, and any transit country. Avoid transiting through poor countries, i.e., book a direct flight from the U.S. to Vienna.

If self-transport doesn't appeal to you, there are other solutions. Selling the bullion in the U.S. and repurchasing overseas is one simple option. But if you want to transport your existing gold overseas, consider professional services that provide turnkey secure transport.

VIA MAT (www.viamat.com) is one such company. It specializes in worldwide, point-to-point secure transportation of valuables. They can even store the gold for you at numerous facilities worldwide, including one in Switzerland.

Standard parcel services like DHL, FedEx and USPS are no longer workable options for transporting bullion. All of the major shipping firms have discontinued or severely restrict bullion shipments.

## Additional Places to Buy Gold

Gold dealers are springing up all over the place. Among those we've had a good experience with are the following:

Miles Franklin, Wayzata, Minnesota. Phone: 1-800-822-8080. Coins and Bars.

David Hall Rare Coins, Newport Beach, California. Phone: 800-759-7575 Numismatic coins.

The Coin Agent, Jefferson, Louisiana. Phone: 1-888-494-8889. Coins and bars.

Border Gold, Surrey, British Columbia. Phone: 1-888-312-2288. Coins and bars. Will store your allocated gold and silver free the first year.

### Buying Large

If your budget can handle it, you should consider standard-size gold bars. While the procedure is rather complicated, the cheapest and most reliable way to buy them is through the Comex (the New York futures market). You can leave the bars in a Comex depository until you're ready to move them to a vault outside the U.S. We've laid out the whole process in detail in our special, free Casey Research publication, ***Buying on the Comex***.

Asset Strategies International, Rockville, Maryland. Phone: 1-800-831-0007. Coins and bars.

Kitco, Montreal, Canada. Phone: 1-866-925-4826. Kitco buys and sells bullion coins, bars of all sizes, and gold in pooled storage.

Perth Mint, Perth, Western Australia. Phone: 61-8-9421-7280. The Perth Mint offers gold (as well as silver and platinum) in your choice of pooled or segregated storage represented by Perth Mint Certificates. You can purchase certificates through any member of the worldwide Perth Mint network. Their sole North American representatives are Asset Strategies International, Kitco (see above), and Euro Pacific Capital (next).

Euro Pacific Capital, Westport, Connecticut. Phone: 1-800-993-8350.

Bullion Vault, London, England. Phone: 44 (0) 208-6000-130. Bullion Vault deals only in pooled storage. Transaction costs are especially low, and you can buy gold that is stored in New York, London, or Zurich, as you prefer. Bullion Vault requires you to link your bullion account to a conventional bank account. When you sell your gold, that's where the proceeds go. If you use an account with a U.S. bank, the sale proceeds will eventually come back to the U.S. If you use a foreign bank account, the proceeds will eventually go there. One more reason to get a foreign bank account. You can take delivery of your gold, but only in 400-ounce bars.

Euro Pacific Precious Metals, Westport, Connecticut. Phone: 1-888-465-3160 (call 1-800-993-8350 regarding Perth Mint Certificates).

GoldMoney, St. Helier, Jersey, British Channel Islands. Phone: 44-1534-633-933. GoldMoney is an electronic gold service. You can purchase as little as one gram of gold in a pooled account (stored in vaults in London, Zurich, and Hong Kong). You also can use your account to make payments, in gold, to any other account holder. You can take delivery of your gold, but only in 400-ounce bars.

***On your own.*** In addition, if you are reaching for maximum privacy for gold coins that you store on your own, we suggest that you inquire with one or more coin dealers located not too far from where you live. If you buy occasionally, in small quantities, and pay cash, the little box of coins you accumulate can be both silent and invisible.

## Your Own Gold Plan

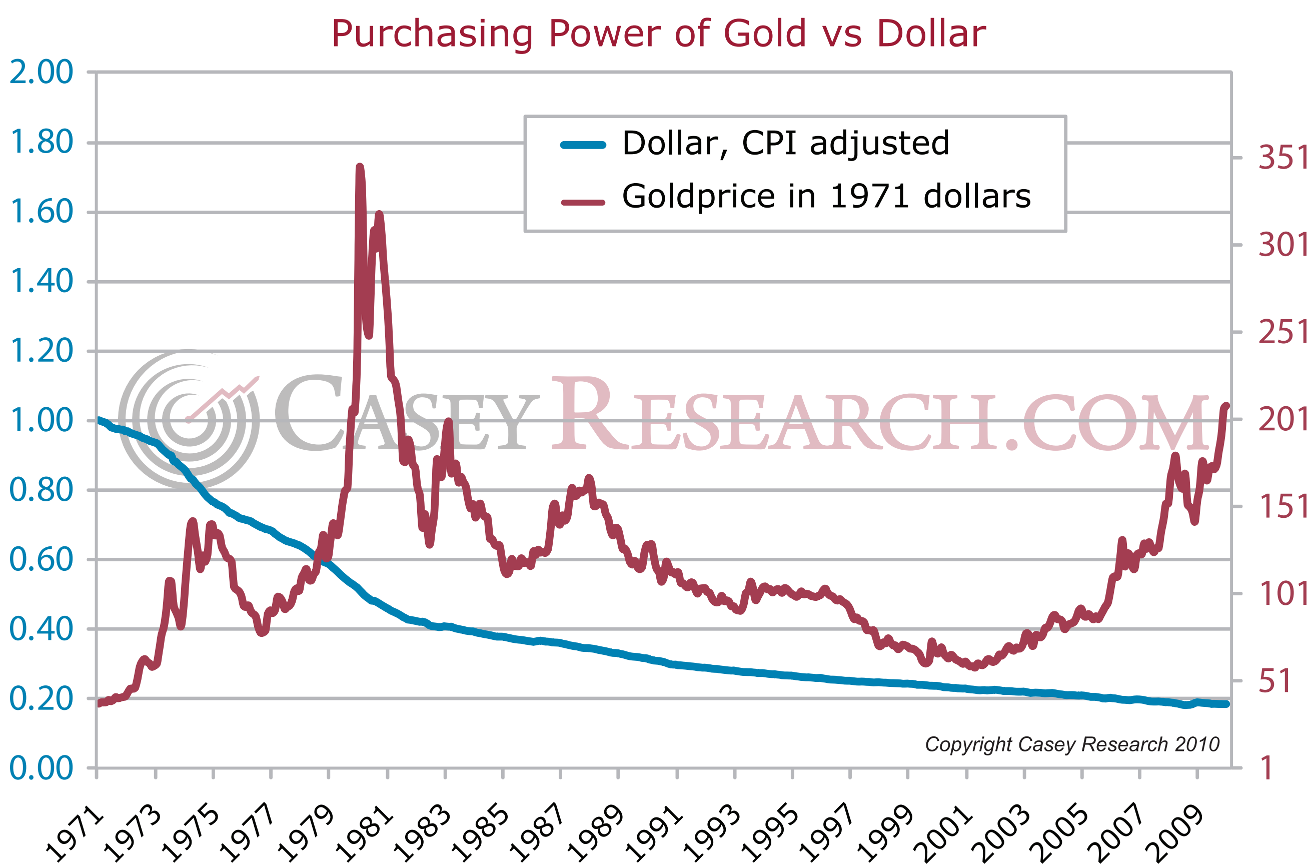
Lots of alternatives, none perfect. As you sort your way through the possibilities, consider these guidelines.

1. Diversify. Don't rely on any one medium. Don't rely on any single source for gold. Don't bet everything on a single storage arrangement.
2. Favor foreign storage. It's worth bearing some inconvenience to do this.
3. Don't wait on a perfect plan. If you don't yet have any gold, get some now.

Today not a single government-issued currency is redeemable for gold or silver or for anything else. Every one of them, including the U.S. dollar, is simply a piece of paper – a fiat currency. The only prospect for a fiat currency to retain its purchasing power lies in the self-restraint of the issuing government. When that melts, so does the currency's value.

When a government prints fiat money faster than its economy is growing, the inevitable result is price inflation – prices of most things going up, which means that each unit of the currency purchases less and less. If the presses roll fast enough, the result is hyperinflation and the eventual destruction of the currency.

Over the last 39 years, the U.S. government has built a poor record of restraint in monetary matters. Since the dollar left the gold standard in August of 1971, the U.S. monetary base (currency in public circulation plus bank reserve cash) has been pumped up from $100 billion to $2.1 trillion, for an average growth rate of 8.1% per year. The result has been a painful erosion of the purchasing power of the dollar, as the following chart shows.



A dollar today can buy only 19% of what it bought in 1971. Given the historic deficits that the United States government is piling up right now, this trend is likely to get worse, not better.

Even more alarming is the government's behavior over the last two and one-half years. From September 2008, the time someone at the Federal Reserve pulled the fire alarm, to April 2010, growth in the monetary base (the fuel stock for price inflation) has been explosive- up an astounding 250% in just 18 months. And in the 12 months that followed, it grew another 24%.

Investing in foreign currencies is a direct way to protect against the damage of a deteriorating dollar. As the dollar loses value, the prices of other currencies generally rise. But to get that protection, you need to choose carefully. As weak as the dollar's performance has been since it left the gold standard, many other currencies have performed even worse.

We recommend diversifying out of the dollar and into currencies that stand a strong chance to hold their purchasing power by appreciating against the U.S. dollar.

For example, the price of a loaf of bread might jump from $2 to $3 over the next few years – a 50% increase. But if you keep your savings in another currency, such as the Australian dollar, and its price grows by a similar percentage against the U.S. dollar, then the purchasing power of your savings will be preserved.

We look for four characteristics that point to strength in a currency:

1) Free floating. The currency is not fixed, *de facto or de jure*, against any other major currency, especially the U.S. dollar. The currency is free to rise and fall as the market dictates without interference by the government or central bank.

2) Independence from the U.S. economy. The economy of the issuing country is not dominated by trade with the United States, so there's no temptation to help export industries by keeping the currency artificially cheap. The country should be largely independent of U.S. trade so that a strong currency will not adversely affect its economy.

3) Low debt levels. Nothing makes the currency markets quiver like sky-high debt. A strong currency requires disciplined financial stewards (politicians) who control their spending urges and run a budget within their means.

4) Backed by growth. The underlying economic fundamentals of the issuing country are strong, and you can be sure that there are multiple engines to drive future, long-term economic growth.

Given these criteria, we find the following currencies worthy of your consideration for long-term holding.

**Swiss franc.** The Swiss National Bank has a firm history of responsible management. Switzerland has never suffered hyperinflation, but the Swiss people have seen it happen in neighboring countries, and they know they want nothing to do with it. Since the U.S. dollar left the gold standard in 1971, the price of the Swiss franc has risen from $0.25 to $0.94, nearly quadrupling in price.

Its more recent performance is shown in the chart on the next page.

**Canadian dollar.** Canada is resource rich – a major producer of gold, oil, natural gas, uranium, hydroelectric power, and industrial metals. As demand rises for the assets it has in abundance, its balance of trade will remain healthy and its currency strong.

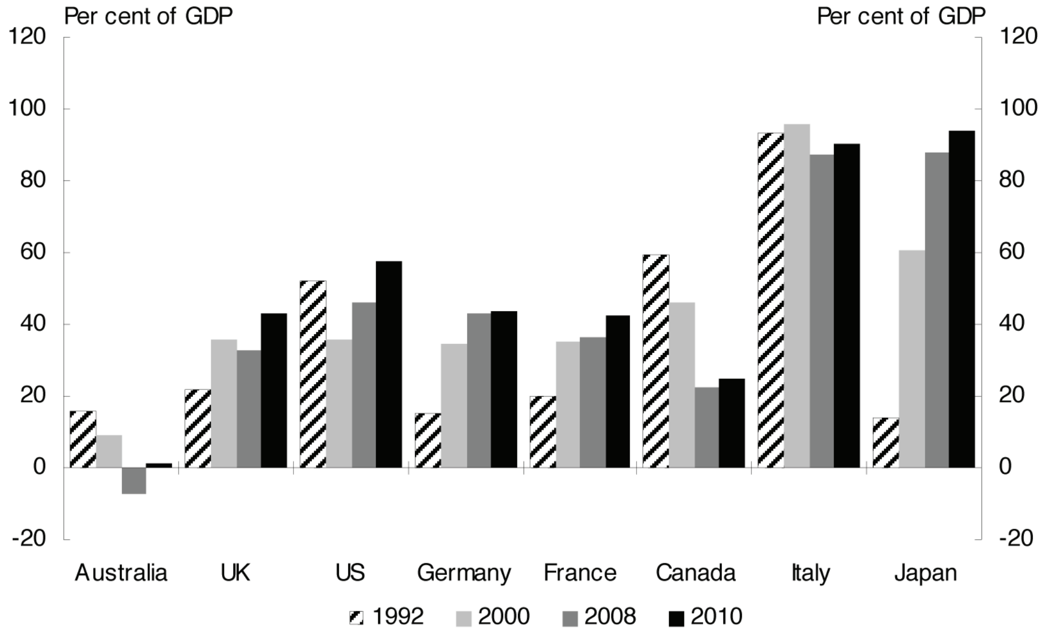
**Australian dollar.** The government of Australia has one of the cleanest balance sheets in the world. Its debt represents less than 5% of annual gross domestic product (vs. the U.S. at 80% and climbing). It's a major gold producer and exporter. And it is positioned to prosper for decades to come as the natural-resource warehouse for the rapidly growing economies of Asia.

**Singapore dollar.** The government of Singapore has consistently been one of the most disciplined and financially prudent in the world. They have overseen decades of sustained growth in their city-state that has developed one of the highest-income and most educated civilizations on the planet. As Singapore is one of the centers of the Asia growth story, its currency should appreciate substantially over the next several years.

**Brazilian real.** Brazil has escaped decades of stagnation to emerge as the dominant economy in Latin America. Blessed with boundless reserves of natural resources (ranging from oil to timber, to gold, to water), Brazil is now prospering as a global resource powerhouse. And it has gotten its fiscal house in order. Among the currencies we recommend for long-term holdings, Brazil's is the most volatile but likely has the most explosive potential as well.

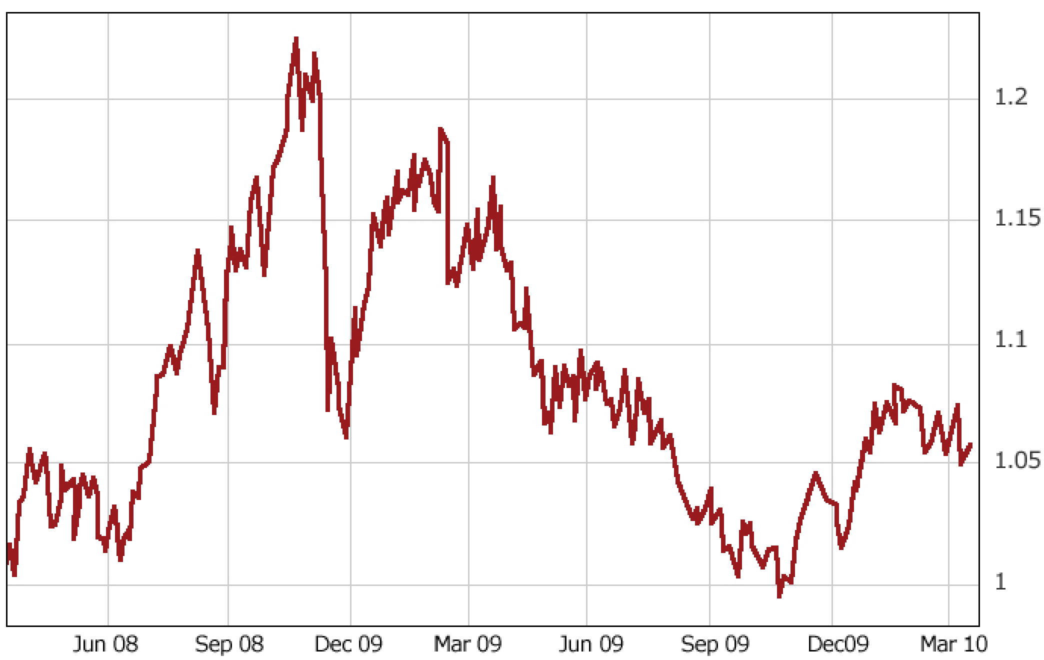
**Norwegian krone.** Like Brazil, Norway is also blessed with tremendous natural resource reserves that generate 2.5 million barrels of oil per day. With reasonable debt levels and a half-trillion dollar sovereign wealth fund (equal to 100% of GDP), the country is on firm footing and has enough economic independence to tolerate significant appreciation in its currency.

## Australian and G-7 public sector net debt

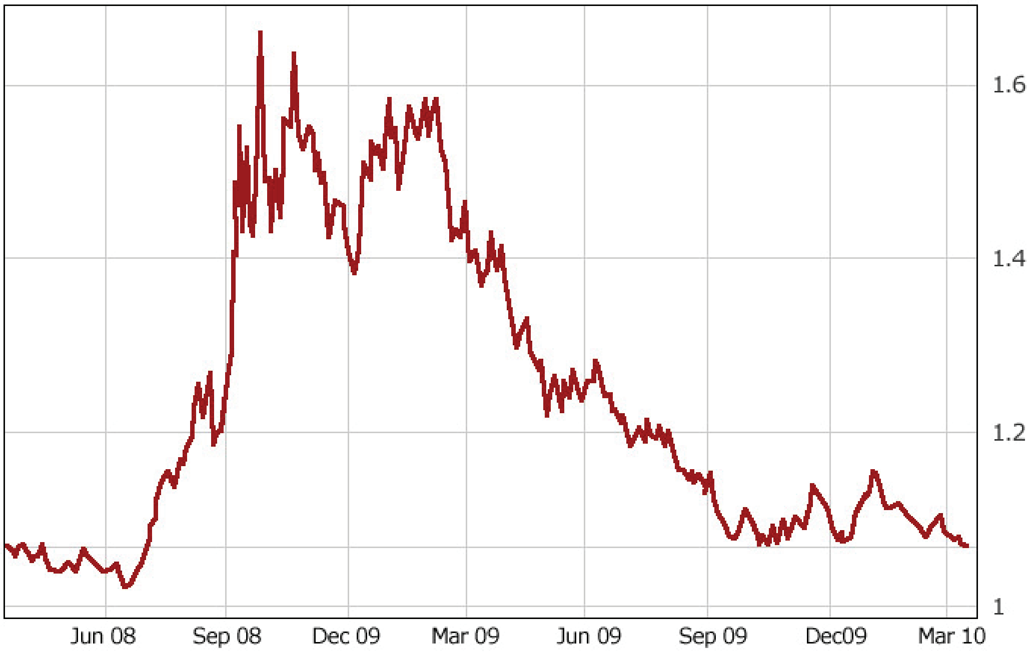



Source: Australian Treasury and OECD *Economic Outlook 84* (November 2008). Net debt figures are from the OECD *Economic Outlook 84* except for Australia's 2010 figure which is the sum of the most recent forecasts for Australian, State and Territory general government sector net debt levels for financial year 2009-10.

## The franc vs. the USD:



The Aussie buck vs. the USD:




The Canadian dollar vs. the USD:

Within the U.S., there are two convenient ways to invest in these currencies.

**EverBank.** EverBank is a well-managed FDIC-insured institution that serves its customers primarily over the Internet. They offer CDs and other accounts denominated in foreign currencies, including our three picks. With an EverBank account, you can earn interest and profit from currency appreciation.

**Foreign currency ETFs.** You can use your U.S. brokerage account to buy shares in an exchange-traded fund that invests in foreign currencies. Rydex, a leading innovator in the ETF field, offers funds that track nine different currencies, including the three we recommended in this chapter.

For fund profiles, visit http://www.currencyshares.com/

If right now you have no foreign currency assets at all, acquiring some through the U.S. vehicles just discussed is a good start. It's something you can do quickly and easily. But holding foreign currencies outside the U.S. will give you much stronger protection from possible future currency controls. Chapters that follow will discuss the alternatives for doing that, starting with a foreign bank account.

Perhaps the single most important thing you can do to safeguard your wealth against sovereign risk is to open a foreign bank account. The benefits are numerous, but we'd like to draw the following to your attention:

1) Uncle Sam does not control foreign banks. The U.S. government now has a laundry list of legal excuses for freezing or confiscating your U.S. bank account. Get on the bad side of the IRS or any other three-letter agency and your ATM card could suddenly stop working. A lawsuit or a tax lien could demonstrate very quickly that "your" bank account is not, in fact, yours at all. The government is simply allowing you to use it for a while.

   At any time, at their sole discretion, any number of bureaucrats can turn off your account – no trial and no due process. You are guilty until proven innocent – and without cash, you'll have trouble hiring a lawyer to prove anything. All they have to do is make a phone call to your banker, and your banker will be more than happy to comply.

   It happens every single day, and as we enter an age when people and governments are starving for cash, hit-and-run raids on bank accounts will only become more common.

   If you have a foreign bank account, on the other hand, Uncle Sam has no control over it. No U.S. bureaucrat or judge has the power to compel a foreign bank to freeze your account. If anyone in the U.S. wants to try, he'll have to go through a lengthy petitioning process, depending on the country you've chosen.

   Like a thief who bypasses locked doors until he finds one open, most potential attackers will leave your foreign bank account alone and pursue easier targets.

2) A foreign bank may be sounder and healthier than your U.S. bank. The balance sheets of most U.S banks are disasters. They took on far too many toxic assets, and now they stay alive by lining up for government handouts instead of by lending to consumers.

   The carnage is not over yet. Most U.S. banks have yet to feel the effects of the commercial real estate bust. More bank failures are coming.

   Ironically, the whole system is "protected" by an insolvent government organization, the FDIC, which will need its own bailout to keep functioning.

   On the other hand, many foreign banking jurisdictions have a history of responsible lending and so have sidestepped the current credit crunch entirely.

3) Currency controls imposed by the U.S. government won't control foreign banks.

   Currency controls, or foreign exchange controls, are government-mandated restrictions on buying and selling foreign currencies.

For example, a government may declare mandatory exchange rates for various currencies – and establish penalties for trading currencies at free-market (black market) rates. Or it may impose taxes or require a license to send money to foreign banks or to convert one currency into another.

Whatever their form, the end result of currency controls is the same – domestic savings are trapped inside the country, where they can be treated as booty by cash-hungry politicians.

Extraordinary reporting and withholding rules recently signed into law (the HIRE Act) have taken the U.S. a step closer to currency controls. The U.S. now has all the legal machinery in place to close the door on Americans who want to send money out of the country. We believe the risk that the government will use that machinery is high.

For now, the door is still open. Americans who move a portion of their savings out of the country soon and place it in a financially sound offshore bank have a chance to protect it from new U.S. laws and regulations.

4) Currency risk. As we pointed out in the preceding chapter, the dollar now buys a tiny fraction of what it once did. Given the unprecedented deficits the U.S. government has embraced, an acceleration in the dollar's loss of value seems close to inevitable. Using a foreign bank is the most straightforward way to acquire and hold foreign currencies.

5) Readiness. Even a small foreign bank account provides a landing spot for any funds you want to move out of the U.S. quickly. Once your account is open (even an account too small to trigger any reporting requirements), it's simple to wire funds for next-day delivery – or for same-day delivery if you start early enough.

And as we have made a case for opening a foreign bank account, the following are NOT sound reasons for doing so.

1) Tax evasion. Back in the good old days when financial privacy was possible, a reluctant taxpayer who used a foreign bank account to hide income might have gotten away with it. Those days are gone.

   Just about every country in the world shares tax information with other countries, and that includes bank account information. If you are the signatory at any bank in the world, the IRS will eventually find out. If you have been trying to use that account to hide or underreport income, you will be found out and caught.

   Hiding income is simply not a valid reason for opening a foreign bank account.

2) Privacy from government. If you do an Internet search for "offshore banking" you will, without doubt, come up with millions of hits. Many web sites are devoted to setting up offshore banking relationships and will promise the moon – banking secrecy, numbered accounts, and the like.

   But it will all be dangerous nonsense. Nearly every country in the world is party to a banking/tax information exchange agreement. That has become the norm, and the OECD has blacklisted countries with noncompliant banking systems and forced them into conformity.

   Financial privacy within the modern banking system is dead, plain and simple. Do not expect a numbered account or a Visa credit card without your name to bring it back to life.

## Jurisdictions

To open a foreign bank account, you first need to get comfortable with a particular jurisdiction. In most cases, the country or city-state will have its own regulatory body, capital reserve requirements, infrastructure, and practices.

There is an enormous difference, for example, between a bank in Panama and a bank in neighboring Costa Rica; a bank in Chile vs. a bank in neighboring Argentina; a bank in Thailand vs. a bank in neighboring Singapore.

The differences are like night and day. In some jurisdictions, the level of service, range of products, professionalism, and balance sheet quality may easily exceed what you are used to in the United States. In other countries, banks are places to avoid.

Below we outline several favorable jurisdictions, each of which has a modern, well-regulated banking system with a high level of professional service and product variety.

**Switzerland**

Switzerland deserves its reputation as a safe haven for money and investments. Swiss banks are regulated by the Swiss Federal Banking Commission, which ensures that they have among the strongest balance sheets in the world. Additionally, there are a variety of deposit insurance schemes in Switzerland, including a basic limit of 100,000 francs that even covers deposits in foreign currencies.

In other instances, cantonal bank accounts can be 100% insured up to any amount by state guarantee. Due to the financial health of Swiss banks, however, these guarantees are rarely called upon.

Despite the recent troubles of Swiss banking giant UBS, in which the U.S. government succeeded in piercing fabled Swiss bank secrecy, Switzerland is still one of the world's most solid banking jurisdictions. The fallout from the UBS incident, however, is that many Swiss banks no longer welcome U.S. clients.

There are alternatives, however, like working with an intermediary or qualified trustee. See below for more details. As a note, Swiss bankers tend to be more welcoming for sizeable accounts ($500,000 and up), so if you like Europe as a region but just want to dip your toe in, we suggest you move on to Austria.

**Austria**

In many respects, Austria has an even more advanced banking system than the Swiss. Its 1979 national banking law provides clear stipulations about safeguarding personal information, and it prohibits outsourcing back office work.

While Austrian tax authorities will share limited banking information on a government-to-government basis, account information has iron-clad secrecy against private creditors.

Like Switzerland, Austria has multiple deposit insurance schemes, including an EU-required minimum of 100,000 euro per account. Furthermore, no Austrian bank has failed since 1939, although in 2009 the government did nationalize one of the weaker banks (HGAA), which was a subsidiary of German bank Bavaria BayernLB.

The major advantage to Austria is that many banks still work with U.S. citizens and provide a full range of private banking services with reasonable account minimums.

**Panama**

Panama has a well capitalized, low-risk banking system that is regulated by the *Superintendencia de Bancos de Panama*. Routine compliance audits for individual banks are published in English and Spanish on the regulator's website.

Panama has become one of the primary banking centers in Latin America, due to its advanced infrastructure and sound banking practices. The quality of service is slightly lower than what you may be accustomed to in the U.S., but small accounts are welcome. Minimum account size for private banking is as low as $5,000.

To be clear, Panama has no FDIC equivalent; if a bank goes under, depositors become creditors on the bankrupt entity. But bank failures are exceedingly rare. Because the government does not offer a rescue service for troubled institutions, banks are careful not to overextend their balance sheets. When there is no lifeguard, swimmers are cautious.

Because it's easy to get to from the U.S., Panama is an excellent jurisdiction for Americans, particularly for smaller accounts.

**Singapore**

Singapore has a well-regulated, transparent banking system, and its banks are among the best capitalized in the world. Because of the city-state's multi-cultural society, Singapore banks attract Western capital, Asian capital, and Middle Eastern Shariah capital.

Singapore has never had a bank failure. Be that as it may, the government's Deposit Insurance Scheme insures deposits up to S$20,000 (roughly US$14,000).

The advantage to banking in Singapore is the strength, stability, professionalism, and transparency of the banking system. You will also find some unique products at Singapore banks, such as accounts that are tied to the price of gold and silver instead of to fiat currencies.

The major disadvantage is the time zone – if you want to get on the phone with your banker, you may have to wait until late in the evening to organize a call.

**Hong Kong**

Hong Kong is one of Asia's primary commercial and banking hubs; the island is a major financial transit point for mainland Chinese wealth, as well as a traditional financial center for Western institutions that do business in Asia.

Hong Kong's financial infrastructure is exceptionally mature and well developed, perhaps even more than what you are accustomed to in the United States.

Hong Kong banks are well regulated and ordinarily carry deposit insurance of up to HKD$100,000, roughly US$13,000, per account. Through the end of 2010, though, the Hong Kong Deposit Protection Board is guaranteeing unlimited deposits in order to bolster confidence in the wake of the credit crisis.

**United Arab Emirates**

The UAE is the country that is the least economically dependent on the United States. When the U.S. says jump, certain parts of the world may still ask "how high," but the UAE would be snoozing through the entire exercise. They have more money than the U.S. can count, and they are sitting on top of the oil that America desperately needs to function.

All in all, the UAE has America over a barrel, so they don't exactly need to answer the door if the IRS comes knocking.

Perhaps more importantly, the banks are extremely secure, backed by trillions of dollars of oil wealth. They long functioned without deposit insurance, but in early 2009, to bolster confidence after the Dubai debt fiasco, the government announced a full bank deposit guarantee program.

Needless to say, the guarantee is backed by Abu Dhabi, the emirate that holds 95% of the country's oil concessions.

In addition to the soundness and independence of UAE's banks, many of them still welcome U.S. customers. Like Asian banks, though, UAE banks can be inconvenient to deal with because of the time difference. Also, UAE takes its weekend on Friday/Saturday, so that only leaves you very early in the mornings on Monday-Thursday to have a phone call should the need arise.

**Canada**

A Canadian bank might not be as foreign as you would like, but it is outside the U.S. and at the moment is wide open for American business. Just show up (bring your passport), and you can open an account quickly and easily.

This is perhaps the major advantage of Canadian banks – due to Canada's proximity to the U.S., they are the easiest places to open accounts. Furthermore, Canadian banks are well capitalized, and they avoided most of the credit crunch carnage.

On the other hand, Canadian banks are *de facto* U.S. banks in that they will be the first international banks to jump in bed with the IRS and the Treasury Department. We recommend that you select Canada as a banking jurisdiction only if you have ruled out other options.

Avoid the banks with a big presence in the U.S., such as Toronto Dominion and Bank of Montreal. They have far too many assets and too much activity on U.S. soil and are likely to succumb quickly to pressures from U.S. authorities. In addition, Canadian Western Bank has the lowest U.S. profile of all – a good choice if you visit western Canada (Manitoba to British Columbia).

Once you have selected your jurisdiction of choice, your next move will be to research banks. Below are a few ways to do that:

1) Crude. Do an Internet search for "Banks in XYZ" and start cold calling them. Explain your situation very clearly: "I am a U.S. citizen and I would like to open an account with $XXXX. Am I eligible, and what do I need to do to open an account?" In most cases, you should be prepared to hop on a plane and visit the institution.

2) More sophisticated. Work with an intermediary, such as a trustee, lawyer, qualified asset manager (see the next section), or other advisor. These firms will, for a fee, vet your particular situation and make the appropriate introductions. Again, this may likely entail getting on a plane.

3) Easy. The shortcut is to choose a large international bank with a strong U.S. presence – HSBC, Standard Chartered, etc. In many cases, if you have the right paperwork, it is possible to open an account at a foreign office of a multinational bank by visiting one of their U.S. branches. For example, you can walk into the Manhattan office of HSBC and open an account at their Hong Kong bank.

In any of these cases, make sure you call the bank in advance and find out exactly what documentation will be required – some places will want a utility bill as a proof of address, others will want a letter of reference from your current bank.

Also, you will want to do a basic review of the bank's financial statements, even if the deposits are guaranteed. Ask two very important questions and verify the answers: (1) Are they making money or losing money? (2) How much cash do they have on hand relative to the deposits that they owe?

## Alternative Routes

Another route is to work with an international asset manager that offers investment and portfolio planning advice and services. They can also act as a go-between to open foreign bank accounts. You'll find two such services mentioned under "Resources" in Chapter 14.

Or if it turns out that your first-choice bank doesn't accept U.S. customers, you may find that they will open an account for a foreign company even if it's owned by a U.S. person. See more about this in Chapter 6.

Opening a foreign bank account is a smart, simple move. But, as we explain in Chapter 12 let your accountant know about it, so that he can prepare any disclosure reports that are needed. U.S. taxpayers must disclose foreign bank accounts on Treasury form TDF 90-22.1 by June 30th each year and also must disclose them in their personal tax returns.

An annuity from a non-U.S. insurance company can provide a package of benefits, including an investment in foreign currencies or foreign stocks, tax deferral, likely protection from currency controls, protection from creditors, and a means for leaving a secure asset to your heirs.

As in the U.S.:

- A foreign annuity can be either a *fixed annuity* (which earns interest and possibly dividends each year) or a *variable annuity* (which is tied to the performance of a pool of investments).
- A foreign annuity can be an *immediate annuity* (which starts sending you a quarterly income for the rest of your life soon after you buy it) or a *deferred annuity* (which accumulates value until you decide to cash it in or to start taking a quarterly income).
- There's currently no U.S. tax on the earnings of a variable deferred annuity. Earnings become taxable only when the insurance company pays them to you.

It's not a sure thing, but should the U.S. government impose currency controls, they probably won't disturb foreign annuities that are already in place, which is a big plus. And by taking a lifetime income, you can turn the annuity into a foreign asset that is impossible (for anyone to force you) to liquidate.

The premier jurisdiction for annuities is Switzerland – because of the strength of its insurance companies (in the industry's 140-year history, no Swiss insurance company has failed), Switzerland's respect for private property, and the protection its law affords against creditors. With that protection, even if a foreign court orders the seizure of your Swiss annuity or its inclusion in a bankruptcy estate, Swiss courts will refuse to enforce the order.

To qualify for creditor protection, three conditions need to be met.

- The person who buys the annuity must either (i) designate his or her spouse or descendants as beneficiaries; or (ii) irrevocably designate some other person as beneficiary.
- There is a waiting period after the annuity has been purchased and the beneficiaries have been designated. Depending on the type of potential claim on the annuity, the waiting period is one to five years.
- The insurance policy itself must be stored in Switzerland, e.g., in a Swiss safe or deposit box or with a Swiss attorney or insurance agency.

Annuity payments to foreigners are not subject to any Swiss withholding tax.

## Purchasing a Swiss Annuity

Swiss annuities are sold without a front-end load. In the case of a deferred annuity, the contract can be cashed in with no redemption fee after the first year. Minimum investment is $50,000 for a fixed annuity, higher for variable annuities.

To buy a Swiss annuity, you can:

- Deal directly with an insurance company. www.swissannuities.com provides a list of Swiss insurance companies and will also act as a referral service at no charge.
- Get the help of an American facilitator, such as Asset Strategies International.
- Engage a Switzerland-based consultant, such as BFI in Zurich. (Use ron.holland@bfi-consulting.com to inquire by email.)

Cost should be the same no matter which way you go about it. The only caveat is that even if you choose the direct approach, the insurance company will require you, as a foreigner, to have an advisor who is domiciled in Switzerland. For a nice summary of FAQs on Swiss annuities, click here.

See Chapter 12 for reporting rules that apply to foreign annuities.

Diversifying into gold and foreign currencies protects you from the purely economic problems being bred by the U.S. government's cavalier attitude toward its ballooning debt. And owning gold and foreign currencies protects you from the Federal Reserve's readiness to debase the dollar by printing more copies at a runaway rate. But what protects you if the government one day says "Hand 'em over"?

If the U.S. imposes currency controls or restrictions on international capital movements, the assets you already have outside the U.S. may not be covered by the rules. Your odds of benefiting from this are especially good with a Swiss or other non-U.S. annuity.

But it's still only a maybe, because currency controls might have provisions forcing Americans to repatriate assets already sent out of the country… or they might not. The U.S. gold confiscation in 1933, for example, did not prevent Americans from keeping gold they already were holding in foreign countries. The Gold Confiscation Order of 201X, on the other hand, might not be so permissive.



Using a foreign company or trust to hold gold, currencies, and other assets can give you stronger protection. (Such entities provide other benefits as well.) They protect against currency controls, first, because the future rules (that we can only guess at) might not cover U.S.-owned foreign entities or might not cover assets already held by such entities.

Foreign entities ensure an even greater level of protection if you give a foreign person (which could be either an individual or an institution) a degree of management power, so that you personally would lack the authority to force the entity to repatriate its assets to the U.S.

A foreign limited liability company is one such entity. It is easy to understand and cheap to establish and maintain. A foreign trust is a more complex topic, and it costs more, but as explained in Chapter 9, it is the arrangement that gives you the maximum protection possible.

## Foreign Limited Liability Companies

You can use a limited liability company formed outside your home country as an international holding company. (The next chapter explains how to do this inside your IRA.) It, not you personally, would buy and hold the overseas investments you want.

A foreign limited liability company has the same general structure as an LLC that you might form in the U.S. The company is registered under the laws of a particular jurisdiction (a foreign country, rather than one of the 50 states). It can have many members (as shareholders in an LLC are usually called) or it can have just one member (probably you).

Its affairs can be managed by an individual, such as yourself, or by an advisor, or a management company you select. The company is governed by written rules (usually called its "operating agreement") that define the rights of the members and the authority and duties of the manager.

### What to Watch Out For

If you want to form a company in a jurisdiction that has not inherited English legal concepts, you may encounter types of companies that are unfamiliar. Some of them are classified as "per se corporations" under U.S. tax rules, which means the company cannot elect out of treatment as a foreign corporation. This is a hazard to beware.

Place no reliance on the easy assurances you may get from a foreign company formation service that the type of company they are recommending is just like an LLC. Instead, get advice from a U.S. tax professional. A Panamanian Sociedad Anónima, for example, is incurably a foreign corporation for U.S. tax purposes (never a partnership and never a disregarded entity), no matter what any Panamanian attorney or cab driver might tell you.

By filing a simple form, an offshore LLC owned by a single U.S. person can elect to be treated as a "disregarded entity" for U.S. income tax purposes, which makes it absolutely income tax neutral. Or it can elect to be treated as a partnership, which makes it almost income tax neutral. Talk to your tax account or tax attorney about making the appropriate election before you fund the company.

An offshore LLC can be designed to be very unfriendly to potential lawsuit creditors, even more so than an LLC formed in the U.S. Using a foreign LLC can also work to your advantage in the current anti-American climate. Among financial institutions that increasingly shun business from individual Americans, many will accept business from a non-U.S. LLC, even if it is American-owned.

A foreign LLC also can be used for estate-planning in the same way as a U.S. LLC. With the right provisions in the operating agreement, the fair market value of, say, a 50% share interest in the LLC will be less than 50% of the value of what the LLC owns. This can substantially reduce the tax on gifts or on your estate.

Even if you own the entire company (you are the only member) and manage it yourself, a foreign LLC may insulate your foreign assets from currency controls. For more robust protection, you can give a non-U.S. friend, relative, business associate, lawyer, or management company limited power to control investment decisions and to approve distributions to the members. That person, being foreign, generally could not be compelled to comply with U.S. currency controls.

By the ratio of benefits to cost and complexity, an offshore LLC rates especially high. But it does not eliminate your reporting burden. If the LLC owns a large foreign bank or brokerage account, you will be required to report it. And there will be annual reports for you to file about the LLC itself.

The premier jurisdictions for foreign LLCs are Nevis (in the Caribbean) and the Cook Islands (in the South Pacific, northeast of New Zealand). We prefer the Cook Islands, because it is not dependent on the U.S. for airline connections or for anything else. And, at least for Americans in the western states, the Cook Islands is quicker and easier to reach than Nevis.

The Southpac Group, headquartered in the Cook Islands, provides trust and company management services in both jurisdictions.

Owning a foreign LLC triggers certain reporting requirements (summarized in Chapter 12), which vary depending on whether you've elected treatment as a partnership or as a disregarded entity. Another reason to talk to your accountant.

Every single day, foreign companies are making money from U.S. customers, and they never have to pay a single dime in taxes to the U.S. government… and why should they? Think about the many cases—

A Korean company manufactures a consumer electronics product that is sold at a store in the United States. The Korean company owes no U.S. taxes.

An Italian company makes a pair of sunglasses that it sells on its website and ships to a customer who ordered from the United States. The Italian company owes no U.S. taxes.

A U.S. citizen visits Morocco and buys a shiny new magic carpet from a local artisan. The Moroccan owes no U.S. taxes.

A Lebanese merchant flies to New York and buys a digital camera, and flies back to Beirut. He then sells the camera, at a profit, back to an American tourist who's visiting Lebanon from New York. The merchant owes no U.S. taxes.

A Panama-based website sells products to customers around the world. The Panamanian company owes no U.S. taxes.

A large U.S.-based manufacturer of medical devices owns an Irish subsidiary. That Irish subsidiary owns a factory that makes pacemakers and sells them in Europe. The Irish company owes no U.S. taxes, and because the U.S. parent company does not repatriate the profits, the U.S. company does not owe taxes on the Irish profits.

In each of these instances, the same factors are at work to protect the foreign company from U.S. taxes.

1) Under U.S. tax rules, the foreign company has no "U.S. source income." For example, income derived from the sale of inventory produced in the U.S. but sold outside the U.S. is sourced to the country where it is sold.

2) The foreign company is not "engaged in a U.S. trade or business." The IRS generally considers a foreigner to be engaged in a U.S. trade or business only if he performs services or sells inventory or real property within the United States.

3) If the foreign company is located in a country that has a tax treaty with the U.S., the barrier to taxation may be even higher. The foreign company won't be taxable unless it has a "permanent establishment" in the United States. A permanent establishment is defined in tax treaties, but usually includes things like a permanent office or manufacturing facility.

In general, if a foreign entity meets the above three criteria, regardless of the entity's ownership structure, the company has no U.S. tax liability from its business activities. And until the company distributes its profits to shareholders, a U.S. shareholder has no personal tax liability.

Needless to say, there are some reporting requirements and disclosures to be made by a U.S. citizen who owns or controls a foreign corporation. We discuss some of them below. But if your business has or *could have* a foreign element, you might save handsomely on taxes by placing that element in a foreign corporation located in a low-tax or no-tax jurisdiction.

Do you earn money performing services outside the U.S.? Do you manufacture anything outside the U.S.? Do you have a web-based business that could migrate offshore? Are you an expat, at least part-time? You're a candidate.

## Controlled Foreign Corporations

What you may be able to shelter is business income, not investment income. U.S. tax rules include certain "anti-avoidance" provisions designed to take the fun out of using foreign corporations to hold investments. These include foreign personal holding company rules, foreign investment company rules, passive foreign investment company (PFIC) rules, and controlled foreign corporation (CFC) rules.

It is the last of these that apply to a closely held foreign corporation being used primarily to conduct a business.

A foreign corporation is a CFC if 50% or more of the stock (measured either by value or by voting power) is owned by U.S. persons each of whom owns 10% or more of the stock. The implication guaranteed by the basics of arithmetic is that if a foreign corporation is owned by ten or fewer Americans, it is a controlled foreign corporation. If you own all the stock and are a U.S. taxpayer, then, even if your calculator's battery has died, the company is clearly a CFC.

You can't dodge the CFC classification by spreading stock among other companies you own or among immediate members of your family, since the CFC rules will attribute their shares back to you.

CFC status carries some consequences for a 10% or greater shareholder who is a U.S. taxpayer.

- Year by year, the shareholder must pay tax, at ordinary income rates, on his share of any investment income (interest, dividends, rents, royalties, and gains on investments) that the CFC accumulates. This closes the door on using a CFC to gain tax deferral on investment income, and it turns capital gains earned by the CFC into ordinary income for the shareholder.
- If the shareholder sells the stock, any profit is ordinary income, not capital gain, to the extent of the company's undistributed earnings.
- If the shareholder dies owning the stock, his estate won't get the step-up in basis to fair market value that will apply to most other assets.

Clearly, CFCs are not a favorable vehicle for holding passive investments. But for business income, CFCs can provide one big advantage. So long as the profits stay inside the company, neither the corporation itself nor any U.S. shareholder is subject to tax on income the corporation earns from business activities that have no connection with the U.S.

So if your foreign corporation manufactures widgets in Thailand and sells them in Hong Kong, or if your corporation hires you to provide consulting services to clients in the jurisdiction in which it was incorporated, or if your corporation operates a web-based business through a server in the Channel Islands and with a credit card processor in Zurich, the operation can be free of U.S. tax.

The advantages can be incredible; imagine the benefit of growing your profits, indefinitely, on a tax-deferred basis. It would be like owning a business within your IRA.

Two things are needed to make it work.

First, you must be able to protect the CFC's business profits from income tax in other countries. It's easy enough to form a corporation in a jurisdiction that won't impose tax of its own. But you also must avoid high taxes in the places where the business operates.

Second, you must have a plan for deploying the CFC's profits in expanding your business or in entering a new business. If you don't, you'll find yourself putting business profits into passive investments, and income from those investments will be taxable to you.

## Profiting from the CFC Rules

Some, but not many, readers will be able to meet both requirements for using a CFC to good effect. However, anyone who can satisfy just the first requirement (business income subject to low foreign tax) may be able to benefit from a CFC by planting the company inside his IRA, as explained in the next chapter.

Most importantly, before you make a move toward a foreign corporation, we strongly suggest that you discuss your ideas with a tax attorney who specializes in foreign structures.

Can you move your IRA investments offshore? Absolutely. But you need to start with the right IRA structure.

Most IRAs limit you to prepackaged investment products – certain mutual funds, the services of a particular broker, or the CDs of a particular bank. But some custodians will allow your IRA to own a limited liability company *that you manage.* Such an "Open Opportunity" IRA gives you almost unlimited freedom to invest your IRA money in whatever asset you want, including real estate, tax liens, equipment leasing, and private offerings.

You're in charge. Your IRA can even run a business.

In addition to the investment freedom it gives you, the Open Opportunity structure can reduce the tax cost of converting from a traditional IRA to a Roth (which everyone is now eligible to do).

For many investors, that's an exciting combination – wide investment freedom plus tax savings on a Roth conversion. In addition, the same structure can make it easy to move your IRA investments offshore.

Depending on the policies of the custodian, the IRA's LLC generally must be a domestic LLC (formed in the U.S.). But one of the many things you can do with an Open Opportunity IRA is to put some or all of the domestic LLC's assets into a foreign LLC that you also manage. The foreign LLC would then invest in currencies, rental or other real estate, or other foreign assets. It could even own American Eagle gold coins that it stores in an offshore safe deposit box.

And if you are considering using a controlled foreign corporation to run a business outside the U.S., your Open Opportunity IRA can own the CFC. That eliminates the CFC disadvantages discussed in the preceding chapter; in particular, you can reinvest the dividends the CFC pays to the Open Opportunity IRA, with continuing tax deferral, in any way you want. And if you use a Roth IRA that follows the Open Opportunity format, the money eventually comes out to you tax free.

If you're presently a member of a pension fund run by your employer, when you leave (quit, retire, or get downsized), you can roll your interest in the pension fund into an IRA, without tax consequences. You can also roll over any existing IRA into a new one, such as an Open Opportunity IRA, without tax consequences. That would open the door to sending your retirement funds anywhere in the world you want, to be invested the way you want.

For more about Open Opportunity IRAs and guidance on how to go about establishing one, see ***Unleash Your IRA***, written by a contributor to this Report. You'll find information on it in Chapter 15, "Resources".

Nothing will get you closer to complete financial safety than a discretionary foreign trust. It's the armored limousine of financial planning, and it can easily take you as far as you want to go in expatriating your assets. You get:

- Protection from future lawsuits. Provided that you are solvent when you transfer money or other property to your foreign trust, you make it virtually impossible for any future creditor to break in – very discouraging for anyone who ever might think about suing you.
- Protection from the threat of currency controls. The trust, being foreign, is subject to the laws of the country where you establish it – not to U.S. law. It would be beyond the scope of any law or executive order from Washington forbidding Americans to own foreign currency.
- Protection from gold confiscation or restrictions on gold ownership. Unless your trust makes the foolish mistake of storing its gold in the U.S., the metal will be beyond the reach of the U.S. government.
- Income tax planning advantages. You will be subject to tax on the trust's income, but by choosing the right trustee, you can gain access to tax-advantaged investment strategies not readily available in the U.S.
- Estate planning advantages. Anything you might do in the U.S. to reduce estate tax, you also can do through a foreign trust – plus some additional measures that won't work onshore.
- A bigger welcome mat. From the point of view of any bank, broker, or other financial institution where you might want to do business, your foreign trust is even more distinctly not-American than the LLC you own and manage.
- Perpetual privacy, security, and tax-free investing for your survivors. After your lifetime, the trust completely disconnects from the U.S. tax system. Beneficiaries pay tax only if and when they receive distributions. No one will have a tax liability for wealth that builds up in the trust, and no one will have a reporting obligation for the trust itself. It can be lawfully silent. And after you, it needn't be part of anyone's taxable estate. If you choose the right jurisdiction for your trust, these benefits can continue, generation after generation, with no time limit.
- Protection for you. You will want to keep enough influence to assure that the trustee never loses sight of your objectives, and you can do so without keeping any powers that you could be forced to use against your will.



## Structure

Foreign trusts are a big topic. The easiest way to get your hands around it is to look at the roles of the four players.

1) *The Grantor.* That's you, the person who funds the trust.

2) *The Beneficiaries.* That's whomever you want to include – probably yourself and other family members. You can include individuals by name, and you can include them by general description, such as "all my natural-born descendants, including future-born descendants." And you can include charities.

3) *The Trustee.* It should be a licensed trust company with a reputation to protect and that has no presence in the U.S. And it should be located in a stable jurisdiction (not a pirate island) that does not impose income tax, gift tax, or estate tax on trusts.

4) *The Protector.* That probably is you as well. As Protector you hold certain powers designed to keep the Trustee focused on your objectives.

The relationships among the four – the rights of the Beneficiaries, the powers you hold as Grantor and as Protector, and the duties of the Trustee – are spelled out in a written Trust Instrument. The two central provisions of the Trust Instrument that give the trust so much power to protect you and your wealth are:

**Irrevocable.** You do not keep a power to revoke or cancel the trust. So no one can compel you to undo what you've done.

**Discretionary.** None of the Beneficiaries is entitled to a predetermined share of the trust's income or capital. Instead, the Trustee has a duty, in consultation with the Protector, to determine who gets what and when. So there is nothing that a creditor of the Grantor or any other Beneficiary can latch on to. And, except in the case of the Grantor, there is no way to tag any Beneficiary with a tax liability or a reporting obligation for the trust.

## Importance of the Protector

Handing discretionary authority to the Trustee is a big step. That's why the Protector's role is so important. It's the Protector's job to assure that the Trustee uses its discretionary power wisely and always in accordance with the intentions of the Grantor. Typically, the Protector has the power to confer with the Trustee, the power to replace the Trustee if its performance is unsatisfactory, and the power to appoint his own successor as Protector (since the trust can continue indefinitely).

The Protector himself is protected by an "anti-duress" provision in the Trust Instrument. His powers are effective only when he exercises them willingly and not under compulsion from a government agency or other third party. This prevents any possible attacker from hijacking the Protector's powers.
In designing the trust, it is crafting the powers of the Protector that calls for the most care. His powers need to be strong enough to assure that the Trustee never wanders

from the Grantor's original intentions. But for asset protection and tax-planning reasons, they should not be so strong that the Protector can compel the Trustee to distribute money to a particular Beneficiary.

## Investment Choice, Control, and Custody

Your foreign trust can hold just about anything, including every type of investment discussed in this Report – gold, foreign currencies, life insurance, annuities, LLCs, and corporations. And it can hold real estate, although the trustee probably will insist that real property be held through a company that the trust will own.

You can give the Trustee as little or as much control over investment decisions as you wish. If you want to directly control investment decisions yourself, the trust can hold everything in a brokerage account that you personally direct, so that you give all the buy and sell orders. For even tighter control, the trust can hold a single asset – ownership interest in a limited liability company that you manage. With the trust + LLC structure, the Trustee can't touch the underlying investments until you as LLC manager decide to make a distribution to the trust.

The Number 1 reason investors who are attracted to the enormous advantages of a foreign trust hesitate to establish one is unease at the thought of handing assets over to a trustee. Can you really trust the trustee? The trust + LLC structure eliminates that unease by placing the underlying assets under the thumb of the Grantor or Protector. Not even Bernie Madoff has figured out a way to steal an LLC interest.

## Tax Rules

There is no income tax on your transfers of property to a foreign trust, even if the property is highly appreciated. Instead, under U.S. tax rules, the trust is classified as a "grantor trust," which means that you are deemed to still own the money or other property you've transferred and are subject to tax on any income it produces. So, although a foreign trust *eventually* becomes silent and invisible and completely disconnected from the U.S. tax system, if you establish a foreign trust, you will have an annual tax paying and reporting obligation for as long as you continue to breathe.

The reporting requirements are explained in Chapter 12, and they are backed up by stiff penalties. If you're not willing to file the required reports, don't establish a foreign trust.

The jurisdictions best suited for a foreign trust are the same as for an LLC – Nevis and the Cook Islands. In both jurisdictions, international trusts are exempt from income and estate tax, and the laws are extremely inconvenient for creditors.

## Costs

The range of costs for establishing and maintaining a foreign trust is enormous, so it pays to shop. If you find your way to the wrong Manhattan law firm, the set-up cost can be as high as $100,000. And they'll probably refer you to a trust company with exquisite furniture that charges a minimum of $10,000 per year just to say "We are the trustee." With that kind of cost structure, the practical minimum for a foreign trust is in the neighborhood of $5 million.

### Foreign Trust or Foreign LLC?

A foreign trust costs more to establish and maintain than a foreign limited liability company. But it does much more.

The advantages of a foreign trust over a foreign LLC are:

- The duty of a trustee has a different legal character than the duty of a company manager. The operating agreement that governs an LLC is a contract. If you give part of the management powers to someone else, that other person has the legal right to consider its own interests in exercising those powers, so long as it doesn't violate the contract. A trustee, on the other hand, is legally obligated to use its discretion and other authority solely for the benefit of the beneficiaries. For a trustee, discretion is a duty, not a right.
- A trustee has more flexibility in applying assets for your benefit. If you come under legal fire, depending on the circumstances, the trustee can make distributions to your spouse or other family member (anyone who is a beneficiary). That money can then be applied informally for your benefit. A company manager doesn't have such flexibility.
- For estate planning, a trust is more powerful than a company. (A foreign trust can apply any conventional estate planning strategy, plus others that won't work with a domestic trust.)
- No one owns a foreign trust. So after the lifetime of the person who funded it, it completely disconnects from the U.S. tax system. No one in the U.S. will have any reporting obligation for it, and no one will have any tax liability until he receives a distribution.

To learn more about foreign trusts, download ***Your Own Offshore Trust***, a report available from Casey Research. It's free for readers of GOING GLOBAL.

At the other end of the cost spectrum is the Passport Trust program (a project of a contributor to this Report). The total set-up cost is under $5,000, and in most cases the ongoing costs are similar to what you would pay when you invest in an ordinary mutual fund. That pushes the practical minimum for a foreign trust down to about $300,000. You'll find more information on this alternative and on attorneys who specialize in offshore trusts in Chapter 15, Resources.

As we suggested at the beginning of this chapter, a foreign trust is the armored limousine of financial planning. The Trustee is your chauffeur. As Protector, you sit directly behind him and can remind him when it's time to speed up or slow down or turn left or right. The other Beneficiaries sit beside you, and you all ride in the highest degree of comfort and safety that modern automotive engineering can achieve.

Buying real estate in a foreign country is a big step for most people, but there are multiple benefits.

- Well-located foreign property is a solid hedge against inflation and a declining dollar. As the dollar deteriorates, you'll be sheltered from its fall because the value of foreign property will rise accordingly.
- Foreign property substantially diversifies your sovereign risk by parking large amounts of capital overseas, far outside the jurisdictional control of Uncle Sam. There are no reporting requirements forcing you to disclose foreign property holdings owned by an individual.
- Foreign property acquisition insulates you from foreign exchange controls. The U.S. government might order you to sell your holdings of gold or foreign currencies and bring the proceeds home, or it might compel you to sell them to the government at "official" prices (that's why we cover foreign companies and foreign trusts). But it is much less likely to do something similar with real estate because the enforcement mechanism would be so cumbersome.
- It also protects against litigation. Increasing numbers of people will try to go predatory on the "rich," roughly defined as "anyone with more than I have." You won't need a very high net worth to look tasty. Foreign real estate locks up a portion of your wealth in an asset that is difficult for a predator to appraise or seize.
- Buying foreign property can be a great investment; if bought well, foreign property can provide substantial capital appreciation and high income yield all at the same time. If purchased within an IRA, all of those profits can even be accumulated tax free.
- Most importantly, owning foreign property gives you a place to go in the event you decide to pull up stakes and fully expatriate from the United States. The process of acquiring property in another country won't just lead to owning a house or a patch of land. It will lead to familiarity with the area you've chosen. In your own thinking, the foreignness of the place will fade.

## Toeing the Starting Blocks

When considering your first investment in foreign real estate, the cardinal rule is: *Choose something you like personally.* Why? Because you might need or want to move there someday.

So how will you know where to go? This is going to take some soul-searching, a bit of research, and a sense of adventure. Don't worry about the investment implications yet – think about you. What's important? Usually people consider things like:

- Weather: Do you like it warm/hot/cold/humid/not humid/no preference? Do you hate/love rain? Do you like/dislike four distinct seasons? For most people, weather can be one of the single most important factors in deciding on location.

- Language: Are you an English-only speaker? Are you willing/unwilling to learn a new language? A lot of people are fearful of learning a new language and only want to be in a country where everyone speaks English… so they only consider countries like New Zealand or the UK without ever realizing that the Philippines, UAE, Singapore, all of Northern Europe, and dozens of other countries should be on the list too.

- Americanized: Are you looking for more of the same, but overseas? Do you want your McDonalds and TGI Fridays and Sunday NFL parties, but just not in the United States? Or maybe you want the exact opposite? It's something to consider.

- Medical facilities: This is also another major consideration for many people who have chronic care needs. There are certainly some countries that are better equipped to handle medical needs, and some places that have specific specialties such as diabetes or cancer treatment.

- Education: If you have children, the quality of public education or availability of private education may be a major factor for you to consider.

- "Cleanliness": This is absolutely critical. You need to know if you have the stomach to live in a developing country that, while quite nice, still has elements of squalor. If not, you need to stick to the "rich" countries, where you don't have to be inconvenienced by other people's poverty.

- Remote vs. Populated: Do you prefer being out in the middle of nowhere? Or do you want to be surrounded by others? Do you want to be near other expats or just be left alone?

- Cost: This is also another important one for many people – what sort of budget are you on? Are you thinking about leaving the United States because it has become too expensive, and you're looking to live the good life on $1,000/month overseas?

- Environment/surroundings: Are mountains/lakes/ocean important to you? Are you an outdoors person?

- Crime/safety: Obviously nobody is going to say, "Yes, I want to live in a really dangerous neighborhood," but some people are more sensitive to crime than others. Some people want to live where there is absolutely ZERO crime, like Dubai or Singapore. Others are happy if the crime rate doesn't exceed a modest level, as is the case in most places.

- Communications: Most Westerners rely heavily on the Internet these days, both for personal and professional reasons. The quality and reliability of phone and Internet will be especially important to you if you telecommute or earn money online.

- Income opportunities: Do you already have a source of income, or will you need to earn money in your new home? If so, consider places that are ripe with business opportunities and friendly to entrepreneurs.

- Other: Do you have any specific hobbies or requirements (availability of organic food, ease of importing your classic car collection, quality of shopping, status of gun control, gay rights)?

Once you have pondered these questions, you'll want to block off some time to research the possibilities. Bear in mind that Google can be the black hole of accurate information, and the expatriation field is no different.

Seek out the most objective information possible, or at least be alert for the possibility that an information provider has a serious agenda to sell you on a particular country.

This happens all too often with expat websites… many countries are not as advertised.

Once you've identified a place as a candidate, grab your sense of adventure and go there. Whether you are visiting it for the first time or the fifth, look at it through the eyes of a potential resident. There is no substitute for boots on the ground. Make multiple trips and explore as much as possible.

Be sure to get out of the five-star resort where you spent your vacation – try to rent an apartment for a few weeks to find out what life will actually be like as an expat. Try to meet others, locals and expats, to test the waters and find out what social integration will be like. And keep an open mind… this is not Kansas.

## The Financial Implications

Once you've at least narrowed down your selection to a few locations, you'll want to start exploring the local markets more closely and considering the financial implications of a real estate purchase.

- ✓ **Will you be comfortable with the country's legal culture?** Most English-speaking countries share a common legal heritage, and most developed countries follow legal traditions that are at least cousins of that heritage. Many others are different. They may just be emerging into the modern world and have only a rudimentary allegiance to the concept of private property and formal contracts. Legal title is another major consideration – does the jurisdiction maintain clean property title records? If title insurance companies operate there, you can have a lot more confidence in the system.

- ✓ **Will the laws permit you, a foreigner, to own real estate?** Bars on foreigners buying property are uncommon these days, but there are still a few. Thailand, for example, places certain restrictions on foreigners owning property, but there are ways to deal with them. Same in Switzerland. Same in Mexico. The real question is how strongly protected property rights are, and this is something that varies from jurisdiction to jurisdiction.
- ✓ **Any special tax wrinkles?** The day may come when you want to sell your foreign property. What will be your local tax liability on any profit? Will you get a U.S. tax credit for the foreign tax you pay? What about property taxes? What about income taxes on any rental income?
- ✓ **Can you make it work without a mortgage?** In many parts of the world, cash is not only king, he's the only dude in town. Other countries don't have mortgage-based property markets such as we have here. You pay cash or you don't buy. Although this does tend to keep prices down, it can be a barrier. As a note, in some countries, cash obviously means "sans mortgage." In others (Argentina, for example), paying in cash literally means suitcases full of currency.
- ✓ **How has the market performed over the last few years?** Maybe you're interested in one of those sunny seaside places that got overbuilt during the big real estate boom that preceded the current bust. There *might* be bargains to be had, and if you smell blood, you can talk directly to the banks that are looking to offload their foreclosure portfolio. Bear in mind that real estate agents have an agenda… many locals may try to convince you that a property's asking price is, in fact, "cheap" because their commission depends on it.
- ✓ **Is property management available?** Managing property in any country can be a hassle for absentee owners. Make sure there is an adequate property management service to take care of things like bills and taxes while you are away. If all else fails, talk to your local attorney – many times they can provide this service for you.
- ✓ **How reliable are the local building contractors?** Are you considering buying raw land and building a home, or seriously remodeling an existing home? Remember, this can be a nightmare even in the United States… adding a foreign element can be even worse. If you must hire a contractor, accept references only from local expats who can vouch for the contractor's quality and reliability… and go see his work for yourself.
- ✓ **How strong is the local rental market?** How are the yields? Is there a particular seasonality to the rental market (as in Punta del Este, Uruguay, which can give you dizzying rental income in January/February but very little the other ten months)?

### Residency

The subject of taxes raises the question of whether you want to consider establishing legal residency in a foreign country. There may be compelling reasons why you'd like to do so. However, bear in mind that, while the reach of American income tax authorities is inescapable as long as you remain a citizen, other countries might want a piece of you too.

As Doug Casey, who has considerable experience in these matters, writes: "It's not necessary, and often not even desirable, to establish official residency in the country where you'd like to spend time, because you risk getting stuck in their tax system. It's usually smarter just to leave every 90 days to renew your tourist visa and not spend more than six months per year in any one country. That way, you'll be treated as a valued tourist, who should be courted, rather than as a citizen, who can be milked like a cow."

## Working with Local Professionals

Once you've identified your target country, explored the neighborhoods, and are ready to make the purchase, you'll want to start working with some local real estate agents to sniff out the best deals.

Particularly in developing markets, this is an extremely important decision, because few of them have a Multiple Listing Service (MLS) whereby every licensed agent has access to every property on the market.
Rather, in developing countries, it is up to the ingenuity and tenacity of the individual agent to find the good deals. So how do you separate the qualified from the unqualified, the good from the bad?

First of all, steer away from any agent that has an exclusive listing for a large project; if his company (or he himself) is the primary agent on a 200-unit condominium complex, guess where he's going to take you first? You'll want to work with someone who has more objectivity.

Ask some questions to gauge their knowledge of the market. Just as in the U.S., a lot of locals probably went out and took a real estate license test (or didn't bother getting licensed) so that they could capitalize on the real estate boom from 2004 to 2008.

That license, however, does not qualify anyone to give advice. Ask detailed questions about the market, such as:

"Tell me what the average cost per square meter is for (insert property class), and tell me how this has changed over the last few years."

"How significant has been the decline in your customer leads since the beginning of the downturn?"

"What do you see as the single most undervalued property class in this country?"

"What types of properties are the most overvalued and risky?"

"Tell me about the rental yields for (insert property class) and whether you think the demographic trends support growth in the yield."

"How would you compare local building quality with international building quality?"

You get the idea. Your goal is to find out whether the individual is actually knowledgeable and well informed or is simply a cheerleader who plays monkey see, monkey do without any concept for investment value or international standards of quality.

Another ingredient for a successful property transaction will be an attorney. Bear in mind that in many countries (most of the Latin world in particular), an attorney is not needed to close a property deal… but you'll want one, nevertheless, just to hold your hand through your first time, make sure that you're in compliance with all local regulations, and assure that you get clear title to your property.

How do you find the right lawyer? We have a system in place for this – read "Hooking Up" on the right.

**Intentional Communities**

Naturally enough, we're partial to Doug's dream (see www.laestanciadecafayate.com for details).

But if yours is different, and you're looking for compatible souls, you'll find an exhaustive list of communities in virtually every country here: http://directory.ic.org/iclist/geo.php

## Hooking Up

If you really want to establish yourself in an area, you need to think beyond buying property. You want to get on the inside. To accomplish that, the lawyer you choose can be invaluable. The top attorneys know all the movers and shakers in town, and it's in one of their circles that you'll need to move, especially if you're hoping for investment opportunities.

How do you begin meeting the people who matter? Retain the best attorney you can find. He doesn't have to be your property lawyer; in fact, it may be better if he isn't. He doesn't have to be a crackerjack legal mind. Excellent legal advice is one thing, networking is another, and in this case, you're looking for the latter.

Make a list of candidates, using as sources anyone you know in the area, or the local newspaper if you speak the language (look for whoever is always involved in the big stories). Or simply cold call attorneys out of the phone book. Let them know you're interested in local investment. See what kind of response you get. Do they speak English? Do they seem to know what you're talking about? How accommodating are they?

Set up meetings. Trust your judgment. If you find a cheesy office with an indifferent receptionist, cut and run. If your instincts say *no* for any other reason, listen.

Assuming you're comfortable with the person, ask what kind of opportunities they know about. Ask who they do business with regularly. Let them volunteer who their best friends are. Once you like and begin to trust someone enough, simply retain them. Let them know that they're the one you'll call when you need legal assistance with your investments. A few thousand dollars may be enough to set you up nicely. It can be money well spent.

Soon, you will likely be receiving calls with invitations to dinners, cocktail parties, business meetings. You'll meet the people who can smooth your integration into the community and who will be on the inside of profit-making opportunities.

After that, it's up to you.

Everything we have discussed so far – corporate structures, trusts, property, banking – are all excellent and legitimate tools for protecting your wealth. But what about you personally? The ultimate solution for protecting your person is to acquire a second citizenship and passport.

There are multiple benefits, some we hope you will never need.

1) Shelter. With a second passport, you will always have somewhere to go. Regardless of how bad things may get, you'll have the right to live permanently in another country and possibly in several other countries. Additionally, as a citizen of another country, you may be extended special privileges and protections in your original country if the worst should happen.

   For example, if the U.S. ever imposes travel restrictions or passport controls, you'll still have a ticket out. In the ultimate doomsday scenario, your adopted country may even be able to offer protection at its U.S.-based consulates and embassy.

   A need to seek shelter at the Brazilian consulate in Miami is not something we would welcome… but with a second passport, you would at least have the option.

2) Loss of stigma. Many people hate the United States. America has gone from the land that takes in the poor, tired, huddled masses to the butt of jokes, an object of revenge, and the target of terrorism. No one ever hijacks an airplane and threatens to kill all the Lithuanians.

   With a new passport, you can shed this stigma.

3) Freedom. With a second passport, a whole new world of opportunity will be open to you. You'll find that overseas banks are much more welcoming, you may be able to travel to more countries without a visa hassle, foreign business partners will be more open to working with you, and in general you'll have more options.

4) Expatriation. It's still just a trickle, but for a variety of reasons, an increasing number of people are deciding each year that they no longer want to be a U.S. citizen. In some cases, they want to disassociate themselves from war and overly busy foreign policy. In others, they've grown uncomfortable with the direction of politics and society. And in others, they're simply sick and tired of the tax structure.

   Dropping U.S. citizenship eliminates all those complaints. But you absolutely must have another passport before you're able to vote with your feet, and that requires citizenship somewhere else.

A second passport provides you with more options. It's the ultimate insurance policy… you may never need to cash it in, but if things do take a turn for the worse, you won't want to be without the options and protections that come with a second passport.

## Is It Legal?

Second citizenship is permitted under U.S. law. Title 8 of the U.S. Code provides for dual citizenship, and there are Supreme Court cases (*Afroyim vs. Rusk*, 1967 and *Vance vs. Terrazas*, 1980) that uphold the same right.

Accepting a second citizenship does nothing to compromise your status as a U.S. citizen. You still get to vote in the U.S.... and pay taxes. Shaking free of those ties would require you to stand in front of a U.S. diplomatic officer and formally relinquish your citizenship.

**Your "How To" Guide**

There are three legitimate ways to obtain a second passport.

## Ancestry

The first is through ancestry. Many countries, particularly those in the European Union, will grant citizenship to descendants of the country's nationals. If you are eligible under the laws of a particular country, this will be your quickest and most cost-effective option. But you will need to follow the country's procedures, and the burden of proving that you in fact qualify will be on you.

This is the route taken by one of the contributors to this Report, and you will find his story in the box to the right.

I'm going to tell you a personal story that I don't often share. I was born in the United States and so was born a U.S. citizen. Before that, my mother (born in Europe) was naturalized as a U.S. citizen.

Several years ago, I realized that I could apply for citizenship in my mother's home country. I had to produce a laundry list of records, including my birth certificate, her birth certificate, her marriage certificate, her U.S. naturalization certificate, her father's birth certificate, her father's death certificate, her mother's birth certificate, her mother's death certificate, and a variety of other records that I had never heard of.

You get the idea.

Fortunately my mother was an extraordinarily good record-keeper, and between her and our family overseas, we were able to track down everything I needed. Once we compiled the documentation, we forwarded it to the consulate in the United States… and waited.

Six months later, I received a letter from the government in Europe indicating that my petition for citizenship had been approved. With the letter in hand, I went back to the consulate to apply for my passport, which arrived after a wait of another three months.

The entire process took approximately 12 months, start to finish, including the document gathering. Total cost was just a few hundred dollars, mostly for shipping charges.

Today the passport is one of a handful that I carry with me at all times. I now have the means to live in at least 27 more countries, and I have visa-free travel to many others. Most of all, it gives me peace of mind to know that I have options. Lots of options. I'm no longer subject to the whims of a single government. I have a tool in my kit that gives me more freedom than I had before.

So what countries have the clearest and most transparent ancestral citizenship laws? Ireland, Italy, Poland, Spain, Greece.

If you think you qualify (usually because you are no more than two generations removed), the place to start is at the nearest consulate. Call them and explain the situation – they have heard the story a thousand times before and will be able to tell you, with certainty, exactly what you need to do.

## Economic Citizenship

The second way to obtain a second passport is to simply pay for it. These are known as economic citizenship programs, and there are a handful of places in the world where the programs have a clean reputation and a good track record.

**Dominica.** Application for Dominican citizenship (we're referring to the small, English-speaking island nation in the Lesser Antilles, not to its much larger Caribbean neighbor, the Dominican Republic) is pretty straightforward. You pay US$100,000 for yourself, your spouse, and two children under 18, or $75,000 if you're single. Those are the basic costs. However, with attorney's fees and other expenses, expect a total closer to $200K.

To apply, complete an official form, provide three letters of reference, a banking reference letter, an employment letter, a medical screening including HIV test, a criminal background check showing no felony convictions and several other forms.

If the application is withdrawn or turned down, the fee you've paid the government normally will be refunded. However, if an application is rejected because it contains false declarations or is accompanied by fraudulent documents, the fee will be forfeited.

The document requirements are strict, and the procedure requires interviews in Dominica. All told, the process normally takes about 12 months.

The citizenship you obtain entails the right to live and work in Dominica and, since the country is a member of the Commonwealth, you'll enjoy some rights and privileges with regard to the U.K. as well. Travel on a Dominican passport is visa-free to the U.K., Switzerland, and 50 other countries. You are not liable for taxation in Dominica on income earned outside of the country unless you decide to reside there.

Full details here.

**St. Kitts & Nevis.** The oldest Caribbean citizenship-by-investment program (since 1984) is offered by tiny St. Kitts & Nevis. It is more costly than Dominica but may be a better choice. The passport allows visa-free travel to more countries than a Dominican passport, including all of the EU, Canada, Hong Kong, and Switzerland. Again, you're a citizen of the Commonwealth and eligible for visa-free travel to the U.K.

Application requires making a non-refundable cash payment to the government of US$35,000 plus $15,000 for each dependant. Then you can take either of two routes.

Route 1. Real estate. You must invest at least US$350,000 in designated, officially approved real estate – although in practice you're not likely to find any eligible property for less than $750,000. So with legal fees and all, the total bill will be around $800K. Furthermore, the property cannot be resold for five years.

Unless you are really looking to drop close to a million dollars on Caribbean property, we would discourage you from the real estate option.

Route 2. Direct Investment. Make a minimum contribution of $200,000 to the country's Sugar Diversification Fund. This option is quite similar to Dominica's program, and the application process is just as document intensive and time consuming.

Typical processing time is 6 to 12 months; citizenship documents and passports are issued on approval of the application. Approval is not guaranteed. However, as most applicants are carefully screened by their lawyer prior to submitting an application (which is why you need one on the ground), applications are rarely refused.

As a citizen, you have the right to reside in St. Kitts & Nevis, as well as in most other CARICOM member countries. In no event are you taxed, as the country imposes no direct taxes whatsoever – no income or capital gains taxes, no wealth taxes, and no inheritance or gift taxes.

The acquisition of St. Kitts & Nevis citizenship is not reported to other countries. [Details here.]

**Going Nowhere**

The Internet is rich in offers of instant passports in exchange for investment in certain countries. At best, the offers distort the facts. At worst, they are outright scams.

Panama is one country whose passports seem to be on sale across the Internet. But not really. There is no economic citizenship program in Panama. There is an investment program that provides the investor with a "travel document." This is not the same as a passport, and it does not convey citizenship. Simple.

The Dominican Republic is another country whose passports are on sale across the Internet. These are scams. Don't buy.

Overall, passports acquired through the Dominica and St. Kitts economic citizenship programs are worthwhile. Given the cost, however, the opportunity is attractive only to wealthy individuals in a hurry.

## Naturalization

The third method for acquiring second citizenship is to establish residency in a country and eventually apply for naturalization… the old-fashioned way.

When weighing a citizenship-by-residency opportunity, you should consider:

1) **What is required to establish residency?**
In some countries, applying for residency is a snap – a process that's quick, straightforward and transparent. In others, it can take months of hard work, politicking, and paper pushing.

2) **How long must you be a resident before applying for naturalization?**
This varies from country to country; depending on your personal circumstances, it can be as little as one year. We don't recommend any country with a naturalization timeline longer than five years.

3) **For what portion of the residency period do you actually have to be in the country?**
Some countries don't care if they ever see you. Others will examine your passport to count the number of your in-country days.

4) **Do you have to give up your U.S. citizenship?**
Clearly this is a major issue for most people, who may not be ready to relinquish U.S. citizenship just to acquire a second passport. Not to worry. Many countries, in addition to the U.S., allow dual citizenship.

While there are scores of countries where you can acquire citizenship by residency, below we provide brief descriptions of some of the places we find attractive. This list is by no means exhaustive, but it should give you an idea of what's out there.

**Brazil**

Brazil is an enemy to no nation and is generally held in high regard around the world. Because of this and because of the country's emerging prosperity, a Brazilian passport is an excellent travel document.

Officially, retired people over the age of 50 can apply for permanent residence in Brazil through the nearest Brazilian consulate. Documentation requirements include proof of residence within that consulate's jurisdiction, valid passport, copy of birth certificate, police record (no felonies), and a formal application.

In this particular scheme, the applicant must also demonstrate pension income totaling $2,000 per month.

Upon approval, the applicant will receive a permanent residence stamp in his passport and must then travel to Brazil to complete the registration.

Once permanent residency is established, the time to acquire citizenship ranges from one to four years. If you marry a Brazilian or assume financial responsibility for a Brazilian child, the government will naturalize you in one year. High net worth individuals

can be naturalized in three years and other retirees in four years.
You do not need to spend this entire period in Brazil, but you do need to enter the country at least once every two years in order to keep the residency valid.

Brazil recognizes dual citizenship without restriction, so you do not need to give up your U.S. passport.

**Singapore**

A Singaporean passport is the most valuable travel document in the world – the only one on which you can travel visa-free to China as well as to the United States and Europe.

The process for establishing Singaporean residency is mystery-free. If you are an investor or a skilled employee, you can obtain residency through the EntrePass or EmployeePass programs.

Once residency is established, an individual can generally apply for naturalization within two to three years, although it is not guaranteed. The government will not exactly count the days on your passport to make sure that you have been there, but they want to see that you have established a bona fide residence in the country and that your ultimate goal is to generate wealth in Singapore, not simply acquire a passport.

Officially, Singapore does not recognize dual citizenship except in limited instances, though there is no official enforcement mechanism aimed at dual citizens.

**Paraguay**

A Paraguayan passport is simple and cheap to acquire. To establish residence, the standard documentation requirements (birth certificate, health screening, police record, etc.) apply. In addition, the applicant must demonstrate economic solvency by opening a bank account with a whopping $5,500.

The authorities then issue the applicant a national ID card, known as a *cedula*. Three years later, you can apply for naturalization, and you don't have to be in Paraguay at all during that three-year period.

Paraguayan citizenship puts you on a faster track for Spanish citizenship. A Paraguayan national who establishes residency in Spain must wait only two years to apply for Spanish citizenship (which requires language proficiency).

Paraguay does not recognize dual citizenship for naturalized persons.

**Ecuador**

Ecuador has a variety of simple, transparent residency programs. One of the easiest is to purchase a $25,000 CD at a local bank. Permanent residency is granted within three months, and no medical exam or criminal background check is required.

After three years of residency (or immediately if you marry a local), you are entitled to apply for naturalization. The law is unclear on how much of the three years must be spent in the country. We are aware of individuals who spent little time in the country but demonstrated "significant travel requirements" for their businesses and were approved for citizenship.

A naturalized Ecuadoran does not need to relinquish his other citizenship.

**Canada**

Some Americans may consider Canada to be "out of the frying pan and into the fire," yet it is one of the most valuable passports in the world, with visa-free travel to nearly every civilized country on the planet. Furthermore, for a former American, it may be easier to blend in as a Canadian.

Establishing residency in Canada is a straightforward process, through a variety of schemes. For qualified investors, the most appealing method takes advantage of section 94(1) of Canada's Income Tax Act.

Applicants who are accepted as residents for being able to demonstrate high net worth are given a five-year income tax holiday, as long as the income is earned through a non-Canadian foreign trust.

Canadian residency can also be acquired by entrepreneurs who invest and can demonstrate the capability to build a successful business in Canada; or by investors who make a passive C$400,000 investment in an approved Canadian company.

Marriage, family and employer-sponsored immigration are also paths to Canadian residency.

Once residency is acquired, the individual must spend at least three years in a four-year period on Canadian soil. The authorities will actually count the days you spend in the country as validated by the stamps in your passport.

Canada recognizes dual citizenship.

**Uruguay**

As in Paraguay and Ecuador, Uruguay's residency application process is straightforward. In Uruguay, the requirements are a clean police record and an annual income of $10,000.

Unlike Paraguay and Ecuador, Uruguayan residency can take much longer to acquire – sometimes more than a year. And you have to apply, in person, in Uruguay. Contrast this with Brazil, where you can do the initial heavy lifting from the United States.

Three years after filing for residency (roughly two years after residency is finally approved), you can apply for naturalization in Uruguay, provided that you have not been absent from the country for more than six straight months.

As of the publication date of this Report, the Uruguayan government has proposed taxing all residents on their worldwide income, including income and capital gains generated from overseas assets.

This is a soundly negative measure that, if passed, would reflect poorly on the country as a place to live. Uruguay may, however, still be a reasonable second passport if it refrains from taxing nonresident citizens on their worldwide income… so make sure you check into this before seriously considering Uruguay.

Lastly, the Uruguayan government presently recognizes multiple citizenship, so there is no need to relinquish your primary citizenship.

**New Zealand**

New Zealand is an increasingly popular destination for retirees and other U.S. citizens wishing to move themselves and at least some portion of their assets offshore. As well it should be. The country has a lot going for it.

For many Americans, one of the primary attractions is that the Kiwis speak English. In addition, New Zealand descends from the same legal heritage as the U.S. Private property and individual rights are protected.

The country is clean, beautiful, and thinly populated. Its citizens are well educated, friendly, and inclined to live and let live. Crime rates are low. It's remote and largely disengaged from the geopolitical maneuverings of the major powers. It has a comfortable climate, plenty of water, available land, good health care, and food independence. There reportedly are ten sheep for each person. The country produces superb wine and excellent cheese.

So what's not to like?

Primarily, it's really far away. Anyone who envisions splitting time between the U.S. and New Zealand is in for lengthy plane trips. The country's remoteness will be a draw for some but would threaten others with island fever.

You can't buy your way in, but if you're young, there are several ways of moving to New Zealand with the intent of establishing residency, including the Skilled Migrant Category, the Work to Residence Category, the Residence from Work Category and the Employee of a Relocating Company Category. See the NZ immigration website for details.

For older Americans, the prospect is more daunting. You can't live like royalty on your pension and Social Security there, and New Zealand doesn't want aging people who will contribute little while taking advantage of government-subsidized health care.

Still, there are options. The Temporary Retirement Category, which was just instituted in March of 2010, may be attractive. If you're 66 or over, you can get a renewable two years of residency if you: put NZ$0.75 million (about US$500,000) into "acceptable" investments (NZ stocks, bonds, currency, and a few other things); have at least NZ$0.5 million of maintenance funds and an annual income of at least NZ$60,000; and meet health and character requirements.

However you establish residency, you have to wait five years to qualify for citizenship. Children born to you in New Zealand do not automatically become citizens unless you are already a citizen yourself or have established permanent residency.

New Zealand also recognizes dual citizenship.

**Israel**

Israel is one of the more interesting citizenship opportunities. For anyone who is Jewish or who can demonstrate that at least one of his grandparents was Jewish, Israel's Law of Return provides a means to obtain automatic residency and citizenship. Recent converts to Judaism can also apply.

The best place to start is the Israeli Embassy. Proof of ancestry or current faith is required, and they will be able to tell you specifically what documentation you need.

Upon entering the country, Jews are granted citizenship within 90 days, and the Israeli government does recognize dual citizenship.

As a travel document, an Israeli passport is extremely valuable, unless you plan on traveling to the Middle East. In fact, just visiting Israel and having an Israeli stamp in your passport will get you barred from entering the more conservative Muslim countries, like Saudi Arabia.

Another factor to consider is that males between the ages of 18 and 48, and women between the ages of 18 and 25, must serve in the Israeli military.

## Other Factors to Consider

The Israeli example underscores a critical point – there are other factors to consider when applying for citizenship. Military service is certainly one of them; consider this implication not only for yourself but also for your children – are you signing them up for a draft?

Also consider the tax consequences. In just about every case, your tax liability to your adopted government will be substantially less than what you are paying in the United States… just make sure that you verify this with competent local professionals prior to heading down the path of naturalization.

Lastly, if you're expecting children or planning to have children soon, you may also want to consider establishing residency in a foreign country prior to the births. In many countries, such as Argentina, Brazil, Canada, Chile, Mexico, Panama, Venezuela, and Nicaragua, children are automatically granted citizenship if born on that soil. Other countries, including the United Kingdom, Australia, Ireland, New Zealand, and South Africa, offer citizenship to locally born children of foreign parents in certain situations (such as the parent being a permanent resident or having lived in the country for a specified period).

This may be one of the greatest and easiest gifts you could ever give a child – automatic dual nationality from birth.

### Passport to Trouble

There are scams, some run by purported representatives of foreign governments and others claiming to have a "special friend" in the government, offering to sell you a passport. Anyone offering to sell a passport, straight up, has either stolen or counterfeited it. You *cannot* get a passport from Room Service. You must either deal directly with the government itself or through an attorney or other legitimate agent who deals with the government. No legitimate outfit is going to be miffed if you vet them.

## Expatriation

More than likely, you were automatically granted citizenship at birth. You didn't ask for it. And being born in the U.S. or being born anywhere as the child of a U.S. citizen subjects you to lifelong taxation on your worldwide income… along with a host of other liabilities.

If you're a natural-born U.S. citizen, you never "opted in" to the system. It was stapled to your ear. But you do have a right to opt out through expatriation – the full relinquishment of U.S. citizenship. The U.S. government provides a procedure for doing this in Section 1461 of Title 8, U.S. Code. The steps are:

You must make a formal declaration to a specified government agent (usually a consular official) that you relinquish U.S. citizenship.

You must complete several forms, the most important of which is State Department Form 4083, "Certificate of Loss of Nationality."

You must file a final tax return and do so under the exit tax provisions enacted in 2008.

(The exit tax was signed into law in June of 2008 by President George Bush as the "Heroes Earnings Assistance and Relief Tax Act." Or HEART. Revenues are supposed to pay for veterans' benefits, a tale believed mainly by those who would buy Arizona property for the ocean view. It applies to U.S. citizens, as well as to long-term U.S. residents, who choose to expatriate.)

Specifically, the exit tax provisions apply:

- if your average annual net income tax liability exceeded US$145,000 during the five years before you expatriate; or
- if your net worth is $2 million or more on the expatriation date; or
- if you fail to certify under penalty of perjury that you have complied with all U.S. federal tax obligations for the preceding five years, or if you fail to submit any other proof of compliance the IRS demands.

A mighty wide net indeed. If you're in it, when you leave, you are taxed as though you had sold everything you own at fair market value and cleared out your 401(k), IRA, or other tax-deferred retirement plan. You get an exclusion for $600,000 of net gain, and there are planning steps you can take to mitigate the tax bill, but if you have substantial assets that are highly appreciated or a large amount of deferred income in a pension plan, the experience could be expensive.

Moreover, transfer tax will be levied on any gifts or bequests over $13,000 annually that you make to any U.S. citizen or resident, including family members. The tax is payable by the recipient.

After you've relinquished U.S. citizenship and paid the final tax bill, your status is that of any other non-U.S. citizen.

It is not true that as a former citizen you are barred from entering the country. You can come in, but you come in as a foreigner. If you acquired citizenship from one of the U.S. visa-waiver countries (Singapore, Canada, most of Europe, South Korea, etc.), you simply present your passport. If you acquired citizenship from a non-visa-waiver country, you will have to go through a routine visa application process, which usually entails a visit to the local U.S. embassy for an interview with a consular official.

The official's job is to determine that a visa applicant will only be visiting the United States, not attempting to stay and obtain U.S. residency or citizenship. During the interview, applicants normally have to demonstrate strong ties to their own country – a job, family, assets, etc.

Clearly, a visa applicant who has already relinquished his U.S. citizenship is unlikely to be seeking residency in the United States. As such, it is extremely rare for a former citizen to encounter any trouble gaining re-entry for visitation or even business purposes.

Once approved, a visa generally is valid for ten years and good for 90-day visit. As a note of caution, foreigners who spend more than four months in a given year on U.S. soil risk getting caught up in the U.S. tax net.

If you are considering internationalizing your financial life, privacy may be one of your goals. Sorry, because of U.S. reporting rules, you can't have it – at least not to the degree you would like.

The rules are strict, and it would be a mistake to try to operate outside of them. So if you have a general intention to send wealth to another country and hold it there, you should understand the reporting requirements before you formulate a definite plan. And understanding the government's reason for the reporting rules may give you a sense of urgency about putting your plan together and then acting.

Two generations ago, using actual cash (not a check) for large transactions was commonplace. People would buy cars or even houses with hundred-dollar bills. Five-hundred-dollar bills were in general circulation as recently as 1969.

But no longer. Washington wants to know how much money you have and what you're doing with it. The use of cash interferes with that goal. U.S. currency still carries the legend "Legal Tender," but over the last forty years it has drifted closer and closer to being illegal tender.



The five-hundred-dollar bill was done in at the order of President Nixon, who cited the fight against organized crime as the reason. Since then, other worthy purposes have been recruited as reasons for restricting the use of cash and also for compelling the reporting of financial accounts – the War on Drugs, fighting tax evasion, catching money launderers, and, most recently, the War on Terror. Our favorite is the need to protect the public's privacy.

The rules keep changing, almost always in the direction of demanding more information from more people. Here are the reporting rules on cash and international transactions as they stand now.

- **Cash transactions.** Within the U.S., any cash transaction of $10,000 or more must be reported by the financial institution on FinCEN Form 104 (Currency Transaction Report). If you ask to withdraw $10,000 in cash from your bank and the teller calls for his supervisor, Form 104 is the reason.

- **Structuring.** The $10,000 rule is supported by a particularly nasty companion the rule against "structuring." If you make two or more related cash transactions that add up to $10,000 or more, you've structured your affairs to avoid the $10,000 rule – which is a criminal violation. It's analogous to getting a traffic ticket for taking a route that avoids red lights.

- **Suspicious transactions.** Your bank is also required to report any "suspicious" transaction, regardless of the amount, on Treasury Department Form 90-22.47 (Suspicious Activity Report).

- **Record keeping.** Cash purchases of monetary instruments, such as money orders, cashier's checks, and travelers checks, totaling from $3,000 to $10,000, must be recorded by the teller in a Monetary Instrument Log. The Log must be kept at the financial institution and produced at the request of examiners or auditors to verify compliance. A financial institution must maintain a Monetary Instrument Log for five years.

> **What is and is not cash**
>
> Does the $10K rule apply to the purchase of gold? Yes and no. If you want to buy more than $10,000 worth of gold, your dealer must report the transaction if you pay by cash or cash equivalents, which include cashier's checks and money orders. But if you pay by personal check, the dealer has no reporting requirement.

- **International cash movements.** If you carry or send $10,000 or more in "monetary instruments" into or out of the U.S., you must submit FinCEN Form 105 (Report of International Transportation of Currency or Monetary Instruments) as you do. A "monetary instrument" includes cash, promissory notes, checks, and money orders without a named payee. This reporting requirement does not cover wire transfers or checks made out to a named payee.

- **Foreign financial accounts.** If you have $10,000 or more in foreign financial accounts during the year, you must file Treasury Form 90-22.1 (Report of Foreign Bank and Financial Accounts, or FBAR), by June 30 of the following year. (The form and instructions can be downloaded from the IRS website, but you file it directly with the Treasury, not the IRS.) In addition, when you file your personal tax return (Form 1040), you will be required to include Schedule B and check the box asking whether you have a foreign financial account.

  The $10,000 threshold refers to the total of all your foreign financial accounts. So if on a given day you had $6,000 on deposit with a bank in Canada and $5,000 in a bank in Mexico, you would need to file the form.

  "Foreign financial account" includes a bank account, an account with a foreign stockbroker or mutual fund, and a variable annuity or life insurance policy issued by a foreign insurance company. Transferring property to a foreign trust may also trigger a requirement to file an FBAR. And under regulations that have recently been proposed and are likely to go into effect, "foreign financial account" will include any foreign insurance policy with a cash value and gold held by a foreign custodian.

  Notably, even under the proposed new regulations, gold stored in a foreign safe deposit box is not a foreign financial account.

- **Foreign financial assets.** Under rules that take effect beginning in 2011, if you have $50,000 or more in specified foreign financial assets, you must attach a report about them (in a form yet to be issued) to your income tax return. A "specified foreign financial asset" includes a foreign financial account and, unless held in a custodial account with a U.S. financial institution, (i) foreign-issued securities, (ii) any other financial instrument issued or guaranteed by a non-U.S. person, and (iii) any interest in a foreign trust or any 10% or greater interest in a foreign company. The gold you lock up in a foreign safe deposit box is not a specified foreign financial asset.

- **Foreign limited liability companies.** If you are using a foreign LLC primarily for holding investments and you are the only owner, you almost certainly will be better off having the company treated as a disregarded entity. Such treatment is available, but it is not automatic (as it is for a domestic LLC). Instead, your LLC must elect to be treated as a disregarded entity by filing Form 8832 (Entity Classification Election). File it no later than 75 days after the company is formed.

  If your foreign LLC holding company has more than one owner, it should file Form 8832 to elect treatment as a partnership. Otherwise, it will be treated as a foreign corporation.

- **Foreign corporations.** If you own a foreign corporation (or a foreign LLC that is treated as a corporation), you are required to file Form 5471 (Information Return of U.S. Persons With Respect To Certain Foreign Corporations) each year. You must also file Form 926 (Return by a U.S. Transferor of Property to a Foreign Corporation) to report your transfers of money or other property to the company. Using an entity that is treated as a foreign corporation is generally the best course if you intend to operate a business in a low-tax jurisdiction.

- **Foreign trusts.** Under existing rules, if you transfer money or other property to a foreign trust, you must file Form 3520 (Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts) to report the transfer and Form 3520-A (Annual Information Return of Foreign Trust With a U.S. Owner) to report the income the trust earns on the property and its proceeds. In addition, the type of foreign trust described in this Report has been swept into the definition of "foreign financial account," so you must file the FBAR form (to which we refer up above) in connection with the trust. And to give the government a fourth chance to notice that you've set up a foreign trust, you must check the related box in Schedule B when you file your personal tax return.

- **Gifts from foreign person.** Form 3520 is also used to report gifts of money or property received from a foreign person. You must report gifts valued at more than $100,000 from a nonresident alien individual and gifts valued at more than $13,258 (adjusted annually for inflation) from foreign corporations or foreign partnerships. For the purpose of these thresholds, gifts from related parties are aggregated. Form 3520 is an information return, not a tax return, since gifts are not subject to income tax. However, there are significant penalties for failure to file.

- **Other reports.** When you file your tax return, you must, of course, include any income or capital gains earned on investments outside the U.S.

None of these rules prohibits any transaction you might want to undertake. They prohibit undertaking it privately. You're still free to send your money wherever you want and to do so in any way you want. Just don't hurt Uncle Sam's feelings by leaving him out of the loop.

All of the rules cited here are backed up with serious penalties, and most of the penalties can be imposed without a criminal trial. They just take your money – no impartial judge, no jury of your peers, no presumption of innocence. The best way to protect against such a problem is to let your accountant know what you are doing and ask him to prepare the required reports. Being tight-lipped with your accountant is a dangerous practice.

We recommend that you apply the utmost skepticism to any creative plan for making an end run around any of the reporting requirements. People have been arrested for making two $9,000 withdrawals from separate banks within a short period of time. It looked like structuring.

Even if a strategy seems foolproof, before you try it, first talk to an attorney to make sure that it does in fact comply with the law.

Many Americans who've considered internationalizing their affairs are discouraged by the reporting requirements and the stiff penalties that back them up. But that's part of what the rules are for – to keep you and your money here, in the U.S., under the government's control. Their second purpose is to give the government the information it will need if it ever decides to compel Americans to repatriate their foreign assets.

The reporting rules do discourage Americans from seeking the safety of international diversification. But understanding what the rules are for should encourage you to diversify internationally... while you still can.

You can gain further protection from the whimsy and desperation of government officials and the adventures of lawsuit predators by keeping information offshore.

In August 2009, a Wyoming bank employee made an egregious error. He accidently sent a file containing the names, addresses, tax IDs, and loan information of 1,325 customers to the wrong email address.

With pulse pounding and panic setting in, the bank employee sent a follow-up email to the mistaken address, pleading with the account owner to delete the sensitive data and contact him as soon as possible. And then he waited...

After several days passed without response, the bank contacted Google, the recipient's email provider, for help. They wanted information about the unintended email recipient. What is his name? Is the Gmail account even active? Would Google take steps to ensure that the confidential information is not disclosed?

Google refused to help without a court order, so the bank sued... and in this particular case the wheels of justice moved rather swiftly. Within a few weeks, U.S. District Judge James Ware ordered Google to temporarily deactivate the recipient's Gmail account and disclose information about the account to the court and to the bank.

Days later, Google and the bank jointly announced that the issue had been resolved... but because of the court order, the user's email account had to remain deactivated for several days.

Through no fault of his own, the recipient had his personal account deactivated because a U.S. judge had jurisdictional authority over the email service provider.

Advances in technology have clearly made many things easier for all of us. Governments and regulatory authorities, though, have a bad habit of applying technology to erode personal privacy.

Email, web searches, e-commerce and credit cards are convenient for consumers. They also make it easier for the government to keep tabs on our activity and whereabouts – and as the Google case demonstrates, the burden of proof needed for violating an individual's electronic privacy is quite light.

Just as you can relocate cash and investments overseas, out of the jurisdictional control of the U.S. government, you can relocate your information as well. Email is nothing more than bits of data that reside on computer servers.

If the owner or operator of the servers that support your email account falls under the jurisdictional authority of the United States, any number of judges and government agencies have the power to seize your most sensitive information.

All of the most popular email services – including Google, Hotmail and Yahoo! – fall into this net. To protect your email and electronic information, you need an email service whose owner, operator, and hardware are outside of your country of residence and citizenship.

Any email service might let you down. But if the Gmail victim had instead been using an email account in, say, Singapore or Switzerland, the chances of a foreign judge ordering the account to be deactivated are slim to none... and Slim's out of town.

You may find the following email services to be helpful.

http://www.neomailbox.com Based in the Netherlands, this company has fast, reliable servers and is located in a good jurisdiction for electronic privacy.

http://www.fastmail.fm This Australian company is owned by Norway-based Opera Software. Norway is an excellent, independent jurisdiction outside of the EU, and Fastmail has some of the most robust and customizable email servers in the world.

http://www.mbox.com.sg/ A Singapore-based email service provider that can integrate with custom domains.

http://www.mails.ch/ and http://www.swissmail.org Both are based in Switzerland, another independent jurisdiction outside of the EU.

If you use a dedicated domain for your email address (for example, username@yourpersonalized-domain.com instead of username@gmail.com), you will be able to switch to an overseas server without ever noticing the change.

If you're also concerned about jurisdictional control over your physical mail, you may consider using a service such as Swiss Post Box (www.swisspostbox.com).

The folks at Swiss Post Box receive your physical mail at their Zurich office, scan each unopened envelope, and email you the image. Based on what you see, you give them further instructions – to forward the letter to your address, open the letter and scan its contents, shred the letter, or hold it for pick-up.

Prices start at 19.90 francs per month, roughly $18.

Using a foreign email or mail-forwarding service does not trigger any reporting requirements.

We hope we've given you a sense of how broad your options are for internationalization. There is much that you can do. And now you may be asking yourself a simple question:

If I *go global*, will I be a target? If I diversify myself and my assets outside of the United States, will I receive unnecessary scrutiny from the government?

Our answer? Absolutely. Yes, you are going to be a target.

But guess what – so is everyone else. All the people who stick their head in the sand and fail to prepare will also be targets. The government is desperate for cash. So are some of your neighbors. From here on, anyone with assets is a target, with a bright-red bull's-eye painted on his wallet.

You are going to be a target of those in the sinking ship no matter what you do. You have a choice, though… you can be a target and protect yourself by internationalizing your assets through all the legal means available, or you can do nothing and be a target that's easy to hit.

You might be daunted by the reporting requirements. Are all the forms in the preceding chapter worth the hassle? It certainly seems like an awful paperwork burden, doesn't it?

Maybe so. But as an intelligent, rational individual, consider this – given the direction the country is taking, do you think your taxes are going to become more complicated or less complicated?

You're going to be filling out reams of new tax paperwork each year no matter what you do. Once again, you have a choice. Fill out forms and be protected, or fill out forms and stay exposed.

Going global is your ultimate protection in uncertain times – it wins you the freedom to move about this world, secure in the knowledge that you and your family will remain healthy, wealthy, and safe no matter how fast things start tumbling downhill in any particular location.

Making it happen takes some effort, but you probably were motivated before you began reading this Report. And if we've done our job in explaining how dangerous it is to keep all your eggs in one basket, you're now even more motivated. Perhaps you can see that time is running short.

## What's Your Next Step?

Do something. Get your assets moving in the right direction, and soon. Start evaluating the opportunities to internationalize any aspect of your life. There are many steps, such as buying Perth Mint Certificates or moving your email account offshore, that you can take without even leaving your living room.

To be clear, though, the more steps you take, the better protected you'll be.

Most attorneys, accountants, financial planners, stockbrokers, and investment publications in the U.S. are close to useless for investors who want to go global. But qualified help is available, and the resources listed here will give you a way to start finding whatever assistance you may need. (Resources affiliated with Casey Research or with contributors to this Report are indicated by an asterisk "*".)

## International Asset Managers

- **Weber, Hartmann, Vrijhof & Partners** (WHVP), Zurich
  Contact: Rob Vrijhof
  Email: info@whvp.ch

  WHVP is suitable for high net worth individuals who want an elevated level of service. It is very small and dedicated to developing deep, long-term personal relationships with all of its clients, 65% of whom are Americans. It works with Bank Vontobel in Zurich. The minimum account is $500,000.

- **Jyske Global Asset Management** (JGAM), Copenhagen
  Contact: Thomas Fischer
  Email: fischer@jgam.com

  Jyske Global Asset Management (JGAM) was formerly an arm of Jyske Bank, Denmark's third largest. It maintains its close relationship with the bank and has access to all of its facilities, but it was separately incorporated (and registered with the SEC) to insulate the bank from the onerous restrictions placed upon dealings with U.S. clients. It serves Americans exclusively. The minimum account size is remarkably low – as little as $25,000, depending on the types of investments you are interested in.

## International IRAs

A number of companies assist in forming Open Opportunity or other self-directed IRAs. Inquire with:

- **Passport IRA***, the publisher of *Unleash Your IRA*
  Passport IRA offers turnkey Open Opportunity IRAs. It is affiliated with Terry Coxon, one of the contributors to this Report.
- **Sovereign International Pension Services**
  Sovereign International Pension Services is an independent IRA administrator that can offer customized self-directed plans and custodial services.
- **Guidant Financial Group**
  Provider and administrator of self-directed IRAs
- **The Entrust Group**
  Provider and administrator of self-directed IRAs
- If you want to do it yourself, you will need a custodian who handles unconventional, self-directed IRAs invested in precious metals, annuities, or an LLC. Inquire with **Goldstar Trust**.

CHAPTER FIFTEEN

## Help with Foreign Planning

Two attorneys who specialize in foreign trusts and companies:

- **Robert B. Martin, Jr.**
  Escondido, California
  Mobile: (626) 840-3472
  Phone: (760) 670-3735
  rbmartin@rbmartinlaw.com
  www.rbmartinlaw.com

- **Michael Chatzky**
  Chatzky and Associates
  San Diego, California
  Phone: (858) 457-1000
  mgchatzky@aol.com

Two advisers who specialize in international planning, including second passports and offshore investment planning are:

- **Simon Black***
  Simon Black
  www.sovereignman.com

  Simon Black is a contributor to this Report, the editor of www.sovereignman.com, and a serial international traveler and investor.

- **The Nestmann Group, Ltd**
  Mark Nestmann
  www.nestmann.com

  Mark Nestmann is a consultant specialized in wealth preservation and international tax planning. Mark is also the author of *The Lifeboat Strategy* and other publications.

A cost-conscious offshore trust program (the only one we know of) that you can contact is:

- **Passport Financial Offshore Trust Program***
  Passport Financial is affiliated with Terry Coxon, one of the contributors to this Report. It publishes reports and provides services and offers turnkey offshore trust solutions.

Organizations and publications focused on going global:

- **www.sovereignsociety.com**
- **www.sovereignman.com***
- **www.internationalliving.com**
- **www.escapeartist.com**

**Simon Black** is an international investor and entrepreneur who is also co-founder and chief editor of the SovereignMan.com daily e-letter. Simon literally lives "internationalization," having personally obtained multiple citizenships, opened foreign bank accounts, operated foreign business companies, purchased foreign property, and lived all over the world. In the last nine months alone, he has traveled to more than 60 countries.

**Jeff Clark** worked on his family's gold claims in California and Arizona, as well as a mine in a place to remain nameless. His research and writing skills are utilized in his role as senior editor and primary writer of *Casey's Gold & Resource Report*. Jeff's specialty is focusing on all things gold and bringing to readers the latest news and ways to profit from the current bull market in precious metals.

**Terry Coxon** is the author of *Unleash Your IRA, Keep What You Earn and Using Warrants*, and the co-author (with Harry Browne) of *Inflation-Proofing Your Investments*. He edited Harry Browne's Special Reports for their 23 years of publication and all of Harry Browne's investment books since 1974. Terry was the founder and for 22 years the president of the Permanent Portfolio Fund, a mutual fund that invests in precious metals as well as stocks and bonds. He is currently the president of Passport Financial, Inc., a specialty financial publishing company, and a contributing editor to the publications of Casey Research and Appenzeller Business Press.

**Alex Daley** is the senior editor of *Casey's Extraordinary Technology*. In the course of his varied career, he's worked as a senior research executive, software developer, project manager, senior IT executive, and technology marketer. He's a technology industry insider of the highest order, having been involved in numerous startups as an advisor to venture capital companies, and has been a trusted advisor to the CEOs and strategic planners of some of the world's largest tech companies.

**Doug Hornig** is the author of ten published books and has written for national publications as diverse as *Business Week, The Writer, Playboy,* and *Whole Earth Review*. After writing 125 articles on a wide variety of subjects for the former CR publication *What We Now Know* between 2004 and 2007, he joined Casey Research full time and assumed authorship of the *Daily Resource* and co-editorship of *Big Gold*. He now works on special projects and is a co-author of *Casey's Extraordinary Technology*, as well as an occasional contributor to *The Casey Report, Casey's Daily Dispatch,* and other publications.

# About the Publisher

Founded by Doug Casey, a renowned international speculator and best-selling author of ***Crisis Investing*** and ***The International Man***, Casey Research publishes nine subscription newsletters...

- *Casey's Energy Opportunities*
- *Casey's Gold and Resource Report*
- *The Casey Report*
- *Casey's Energy Report*
- *Casey's International Speculator*
- *Casey's Extraordinary Technology*
- *Casey's Energy Confidential*
- *Casey's Investment Alert and*
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